BIOMIRA ANNUAL REPORT 2003

BIOMIRA

The Cancer Vaccine People™

Table of Contents

Cover:

Biomira hired Lynn Csontos in 1996 following her graduation from the Northern Alberta Institute of Technology in Edmonton, Alberta. She began her career as a technologist in the Chemistry Research group learning about the synthesis of small molecules. From there she transferred to Chemical Development where she gained experience in scale-up and optimizing process design. Recently, Lynn transferred to the Quality Assurance department where her plan is to develop more skills and continue to contribute in the fight against cancer.

Dear Shareholders:

Reflecting upon 2003, it was certainly a complex and challenging year.

During 2003, our focus remained on our two main product candidates in the clinic, Theratope® vaccine and BLP25 Liposomal vaccine (L-BLP25). We worked collaboratively with Merck KGaA of Darmstadt, Germany in continuing the fight against cancer.

We also worked to ensure we had the financial resources available to allow us to continue our work through 2004 and into 2005 and we will continue to capitalize on financing opportunities as they arise.

THERATOPE – Our Work Continues

The most challenging aspect of 2003 was working through the final analysis of the Theratope Phase III study of 1,030 women with metastatic breast cancer. This was an extremely large Phase III trial designed to demonstrate whether the vaccine worked in this specific patient population. That was not to be the case. Theratope did not show a statistical difference in the two pre-determined endpoints of time to disease progression and overall survival. Although disappointed, we were heartened to learn that for one large pre-stratified subset of over 300 women, those on hormonal treatment following chemotherapy, there appeared to be a favourable trend to improvement in survival, although not statistically significant. Obviously for this group of women, our work was just beginning.

The hormonal treatment subset was a large group of our patients, about one-third, and it was important to find out why they appeared to do so much better than the rest. We have now completed additional months of survival follow-up and adjustment has been made to the data correcting for mis-stratifications and mis-randomizations. We have made those corrections, not in an attempt to seek approval at this time, but to understand what really happened on the trial and to these women.

From these analyses, results for the women on hormonal therapy showed a median time to disease progression of 8.3 months for women treated with Theratope versus 5.8 months for those women who received the control vaccine. The median survival was 38.2 months in the Theratope group of women versus 30.7 months in the control group, a difference of 7.5 months. Certainly for the women with the improved survival, these extra months are very important and with the low toxicity of Theratope, we feel it necessary to continue consideration for moving this vaccine forward.

Right now we are focusing on the mechanism of action. We want to understand why there was a difference between the two groups of women – those treated with hormonal therapy, versus those that were not.

Understandably, we were encouraged that one group of women showed apparent benefit from the vaccine, but until all of the data is in, we cannot make definitive plans for what's next with this vaccine. When we have made those decisions, we will communicate them to our stakeholders.

Meanwhile, we are nearing completion in the enrolment of a 95-woman Phase II study of Theratope to treat women in another metastatic breast cancer setting. These women receive either aromatase inhibitors or Faslodex® (Fulvestrant), an estrogen-receptor antagonist, plus Theratope. When we started this trial, we did not have the final analysis data from our Phase III trial. Now that we have seen the potential benefit to women on hormonal therapy, we are looking forward to seeing the results of this trial to help us decide how to move forward. The women on this trial have a less aggressive form of the disease. It will be interesting to see these results expected in the second half of 2004.

In June 2003, the American Society of Clinical Oncology (ASCO) Meeting gave us the opportunity to present data on our Theratope Phase II study in patients with metastatic colorectal cancer. This trial showed that colorectal cancer patients on the vaccine were capable of mounting an immune response, while receiving concurrent chemotherapy. We were encouraged with the early results in this 20-patient trial. At that time, a preliminary Kaplan-Meier Time to Disease Progression curve of 16 of the 20 colorectal cancer patients who received combination chemotherapy plus at least four Theratope vaccinations showed a median of 8.4 months for progression of their disease. We recently updated the data and when looking at all 20 patients the median for time to disease progression remains the same, and we now have survival data showing a median survival of 17.8 months. These are encouraging results. Although we didn't design the trial with a survival endpoint, this does give us additional data to use when strategizing with our collaborator, Merck KGaA, on next steps for this vaccine. Colorectal cancer is the third most common cancer found in men and women in North America today and looking at potential new treatments is important to us all.

L-BLP25 – Phase IIb Final Analysis Results

L-BLP25 is a synthetic MUC1 peptide vaccine. L-BLP25 incorporates a 25-amino acid sequence of the MUC1 cancer mucin, encapsulated in a liposomal delivery system. The liposome enhances recognition of the cancer antigen by the immune system and facilitates better delivery. L-BLP25 is designed to induce an immune response to cancer cells.

In 2002, we completed enrolment in a Phase IIb 171-patient trial of Stage IIIB and Stage IV non-small cell lung cancer patients. The trial was both controlled and randomized.

The data analysis was conducted in the first quarter of 2004 and preliminary results were reported on April 2, 2004. The preliminary results show that patients on the vaccine arm of the trial had a survival benefit of 4.4 months over the control arm of the study. While the trial was powered with the potential to show a statistical difference in survival if we had outstanding results, we must remember that this was a modestly sized Phase IIb study of 171 patients meant to give us meaningful safety and efficacy data at a reasonable cost and in a reasonable time frame. It was not large enough to provide a statistically significant result with a difference of 4.4 months, as was seen in this trial even though this difference would be a clinically important difference. The trial accomplished exactly what it was designed to do – it gave us a strong indication of how to proceed in both NSCLC and potentially other indications, while providing evidence of efficacy. Results also indicate the product has a good safety profile and does not adversely affect quality of life.

Importantly, when looking at the two-year survival rate for patients on the trial, overall 43.2 per cent of patients on the vaccine arm lived at least that long, while 28.9 per cent of patients on

the control arm met that time frame. It is felt that cancer patients on immunotherapy do better with lower tumour burden and this was clearly indicated by this trial. When we looked at the patients with a lower burden of disease, those patients with Stage IIIb locoregional disease (disease limited to the surrounding area) these numbers changed dramatically. We have not yet reached the median survival for patients on the vaccine arm in this patient population but currently the two-year survival rate is 60 per cent versus 36.7 per cent for the control arm (median survival of 13.3 months). We will continue to follow the patients on this trial and will update our stakeholders as new information becomes available.

The controlled, open-label Phase IIb trial involved men and women whose disease was stable or who had responded to treatment following completion of their first line standard chemotherapy. Patients were randomized to either L-BLP25 plus best standard of care or to best standard care alone. Best standard of care included palliative radiotherapy and/or second line chemotherapy according to current standard clinical practice.

We are very encouraged by these results and are developing plans for further clinical testing of this product candidate in lung cancer and possibly other indications. Although not finalized, our current plans include discussions with regulatory authorities and the likelihood of a multinational Phase III registration trial. The study population will likely involve patients with a lower burden of disease, for example, patients with Stage IIIb cancer and could commence sometime in 2005.

In preparation for the potential multinational registration trial, Biomira is already scheduling for the manufacture of new vaccine supplies. This will incorporate manufacturing changes intended to secure the future commercial supply of the vaccine. Scheduling these changes now ensures that the resulting pivotal data will be considered representative of the safety and effectiveness of the commercial supply of the vaccine. A comparability plan will be discussed with regulatory authorities to ensure the successful initiation of a pivotal trial.

Lung Cancer Statistics

Lung cancer is the leading cause of cancer-related mortality for both sexes in North America. The American Cancer Society estimates there were 169,400 new cases of lung cancer in the United States in 2002. NSCLC accounts for approximately 75 to 80 per cent of all primary lung cancers. At the time of diagnosis, only 25 per cent of patients are potentially curable by surgery.

L-BLP25 Prostate Study

In addition to the Phase IIb trial for men and women with Stage IIIb and IV NSCLC, in 2002 Biomira also completed enrolment in a pilot study with L-BLP25 in patients with prostate cancer. A 16-patient L-BLP25 Phase II pilot study in patients with rising prostate specific antigen (PSA) post radical prostatectomy was conducted to determine whether the vaccine could reduce or stabilize PSA levels. L-BLP25 showed a good safety profile and the dose and schedule were also well accepted by the patients. Preliminary results in this small patient population did not conclusively show a reduction or stabilization of serum PSA levels. However, there appears to be a prolongation of PSA doubling time (PSADT) in approximately 40% of the patients. While there has been no commitment to conduct further trials at this time in this indication, the patients continue to be followed for PSA levels for a period of 12 months following their last vaccination.

Biomira's Collaborative Efforts

Our key collaboration in developing therapeutic cancer vaccines is with Merck KGaA. With more than 34,200 employees in 53 countries, the Merck Group generated sales of EUR 7.2 billion in 2003. Founded in 1668 in Darmstadt, Germany, the Company aims to be a world leader in its core businesses of pharmaceuticals and chemicals. Merck groups its operating activities under Merck KGaA, in which the Merck family holds 74 percent and the remaining 26 percent is publicly traded. The former U.S. subsidiary, Merck & Co., has been a completely independent company since 1917. Merck KGaA has built a strategic oncology portfolio by developing and in-licensing product candidates in four areas -- monoclonal antibodies, therapeutic vaccines, immunocytokines and angiogenesis inhibitors.

EMD Pharmaceuticals Inc. (EMD), the U.S. affiliate of Merck KGaA, is a fully integrated pharmaceutical company with an initial emphasis on launching new products in oncology. Located in Durham, N.C., EMD focuses on meeting patient and physician needs with pioneering pharmaceutical products and services.

In addition to the Merck KGaA collaboration, Biomira also recently entered into a license and development agreement with Prima BioMed Ltd of Melbourne, Australia and CancerVac Pty Ltd., its subsidiary. The license and development agreement relates to the development and commercialization of CancerVac's Mannan-MUC1 Fusion Protein (MFP) therapeutic vaccine. CancerVac has developed an immunotherapy that utilizes the patient's own dendritic cells treated ex-vivo to stimulate a cellular immune response following re-injection into the patient.

In partial consideration for the license rights provided by Biomira to CancerVac, Biomira acquired a 10 per cent equity stake in CancerVac, and a seat on the CancerVac Board of Directors.

Prima BioMed and CancerVac are planning to conduct a Phase IIa study in ovarian cancer with the product candidate, with the trial expected to commence in the second quarter of 2004, subject to the approval of the protocol by Biomira.

The license and development agreement provides that Biomira has the sole option of licensing the exclusive worldwide commercialization rights (excluding Australia and New Zealand) to this product candidate following conclusion of the Phase IIa trial in ovarian cancer. Biomira, at its election, may acquire exclusive licensing rights for the worldwide application of the CancerVac technology (excluding Australia and New Zealand) relating to this product candidate or only for the North American region. Such election is to be made by Biomira following Biomira's review of the Phase IIa clinical trial data. If Biomira proceeds with the worldwide rights it will thereafter generally meet 100 per cent of the ongoing development costs of the technology or 50 per cent of the development costs if it elects to confine its activities to the North American territory.

What's Ahead in 2004?

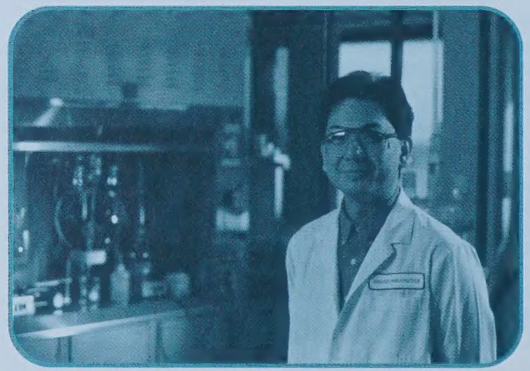
Our focus for 2004 will be to develop a strategic plan for moving L-BLP25 into the clinic as quickly as possible in a patient population that will most likely benefit from this novel vaccine approach. We want to plan a pivotal trial that clearly shows that this vaccine works in this patient population and also look at other indications where the vaccine could potentially provide clinical benefit.

We also haven't lost sight of Theratope. We continue to have our scientists and consultants looking at the mechanism of action to explain why patients receiving hormonal therapy as part of their metastatic breast cancer treatment appeared to gain a clinical benefit from the vaccine on our Phase III study. When we have a clearer indication of whether we can explain this, we will develop next steps for this vaccine, as well.

Once again, we thank all of our stakeholders for their continued support throughout 2003 and into 2004.

Alex McPherson, MD, PhD
President and Chief Executive Officer

This annual report may contain forward-looking statements. The Company is including this cautionary statement identifying important factors that could cause the Company's actual results or plans to differ materially from those projected in such forward-looking statements. Various factors, many of which are beyond the control of the Company, which could cause actual results to differ from the projections include those predicting the timing and results of clinical trials, or the adequacy of one clinical trial for a successful registration; the availability or adequacy of financing; the manufacture, distribution, sales and marketing of commercial products; the efficacy of products; receiving regulatory clearances for products; being able to adequately protect the Company's proprietary information and technology from competitors; and assuring that the products of the Company, if successfully developed and commercialized following regulatory approval, are not rendered obsolete by products or technologies of its competitors. Although the Company believes that the forward-looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met. All forward-looking statements are expressly qualified in their entirety by this cautionary statement. This report is a general overview and regard should be given to review of appropriate corporate filings with the securities regulators.



2003 Timeline

April 2003

Biomira presents at the World Vaccine Congress 2003 in Montreal, Quebec.

Biomira announces a financing of U.S. $5.5 million facilitated by Rodman & Renshaw Inc. of New York, which was fully subscribed on May 1, 2003. Biomira then announces a second financing totalling approximately U.S. $3.7 million for a total of U.S. $9.2 million, which closed on May 15, 2003.

Biomira receives strengthened coverage for Theratope® vaccine through U.S. patent re-issue for carbohydrate vaccine program.

May

Biomira appoints Marilyn Olson Vice President Regulatory Affairs.

Richard L. Jackson, PhD, joins Biomira's Board of Directors. Dr. Jackson is the President of Richard Jackson Associates, LLC, a biotechnology and pharmaceutical consulting firm in Cincinnati, OH.

June

Biomira presents data at the 2003 American Society of Clinical Oncology (ASCO) Annual Meeting showing findings from the Phase II Theratope colorectal study. Patients on this trial demonstrated the capability of mounting a normal immune response to the vaccine while on chemotherapy.

Theratope Phase III breast cancer demography abstract is published in the ASCO Meeting Proceedings Publication. This data shows that treatment practices and responses to first-line chemotherapy were very similar across three global regions, regardless of the chemotherapy used for first-line treatment. Similar observations were seen in the use of concurrent hormone therapy in the different geographical regions.

The Theratope Phase III clinical trial final analysis shows that the vaccine did not reach statistically significant results in survival and time to disease progression in women with metastatic breast cancer. One large pre-stratified subset of over 300 women, those on hormonal treatment following chemotherapy, appeared to show a favourable trend to improvement in survival. Further analysis of this subset of women has commenced.

Biomira announced the results from its Phase II study of BLP25 Liposomal vaccine (L-BLP25) showed that in that small group of 16 men there was no conclusive evidence that the vaccine had an effect on rising Prostate Specific Antigen (PSA). However, there appears to be a prolongation of PSA doubling time (PSADT) in approximately 40% of the patients. While there has been no commitment to conduct further trials at this time in this indication, the patients continue to be followed for PSA levels for a period of 12 months following their last vaccination. L-BLP25 showed a good safety profile and the dose and schedule were also well accepted by the patients.

September

Biomira presents highlights of the Company's product and corporate plans at the Orion Securities 8th Annual Healthcare Conference at the Sheraton Centre Hotel, Toronto, ON.

Biomira arranges a U.S. $16,290,000 financing with Rodman & Renshaw, Inc. of New York acting as exclusive placement agent. The financing closed on October 1st.

October

Biomira presents at the 5th Annual Rodman & Renshaw Techvest Healthcare Conference in Boston, MA.

November

Biomira appoints Ronald J. Helmhold Vice President Treasury and Financial Operations.

December

Updated Theratope data is presented at the 26th Annual San Antonio Breast Cancer Symposium.

2004 Timeline

March 2004

The Theratope Phase II colorectal data of 20 patients was updated and showed a median survival of 17.8 months. The median time to disease progression remained unchanged at 8.4 months. The Companies will use this data in developing future strategies for Theratope.

Biomira signs a licensing deal with Prima BioMed Ltd of Melbourne, Australia and its subsidiary, CancerVac Pty Ltd, for the development and commercialization of CancerVac's most advanced cancer vaccine product candidate. CancerVac's MUC1 Mannan fusion protein technology is an immunotherapy that utilizes the patient's own dendritic cells treated ex-vivo to stimulate a cellular immune response following re-injection of the cells into the patient.

April

L-BLP25 Phase IIb trial in non-small cell lung cancer (NSCLC) shows evidence of a 4.4 month overall improvement in survival with an overall median survival of 17.4 months for those men and women in the vaccine arm versus 13 months for those patients on the control arm. Patients on the vaccine arm received best standard of care plus L-BLP25, while patients on the control arm received best standard of care alone.

The overall one-year survival for the treatment group is 62.5 per cent versus 55.4 per cent for the control group, but is 43.2 per cent versus 28.9 per cent respectively for the two-year survival, a difference of 14.3 per cent. These results are extremely impressive when we look at other clinical data published in similar patient populations. In a recent JCO article, clinical results indicated the expected two-year survival difference of six per cent (Belani et al, JCO, 21, No. 15, 2003, pp 2933).

The two-year survival for the 65 of 171 patients with Stage IIIb locoregional disease is 60 per cent on the treatment arm compared to 36.7 per cent for the control arm or a difference of nearly 25 per cent, which is a large difference in this cancer.

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) provides commentary on the financial condition as at December 31, 2003 and 2002, and results of operations of Biomira Inc. ("Biomira" or "the Company") for the years ended December 31, 2003, 2002, and 2001. The MD&A, prepared as at April 2, 2004, should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2003. These financial statements, which follow the MD&A, have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) that differ in certain respects from those of the United States (U.S. GAAP). Unless otherwise indicated, all amounts shown are in Canadian dollars.

Overview

Biomira Inc. is an international biotechnology company operating primarily in a single business segment, the research and development of innovative therapeutic approaches to cancer management. The Company is focused on developing synthetic vaccines and novel strategies for cancer immunotherapy. Immunotherapy is a treatment approach designed to induce protective immune responses that will control the growth of cancers, prevent or delay metastasis or spreading, and increase the survival of cancer patients. Biomira's strategic mission is to become a forward integrated, global products-oriented biotechnology company.

Clinical Development and Strategy

Biomira's lead product candidates currently under research and development, Theratope for breast cancer (Phase III and Phase II) and Liposomal BLP25 (L-BLP25) for non-small cell lung cancer (Phase IIb), are in late stage clinical testing.

Theratope is an investigational therapeutic cancer vaccine that consists of a synthetic version of the tumor-associated antigen Sialyl Tn (STn) linked to the protein carrier, keyhole limpet hemocyanin (KLH), and is designed to stimulate an immune response to STn. The primary objectives of the Phase III trial, which randomized 1,030 women with metastatic breast cancer, were to compare time to disease progression and survival between patients receiving Theratope vaccine and those on the control vaccine arm of the study. The results of the final analysis of the trial, announced in June 2003, did not meet the two pre-determined statistical endpoints of time to disease progression and overall survival. However, one pre-stratified subset of over 300 patients in the treatment group, women on hormonal treatment following chemotherapy, showed a favourable trend to improvement in survival.

Biomira and its collaborative partner, Merck KGaA of Darmstadt, Germany, through its U.S. affiliate EMD Pharmaceuticals, Inc., undertook subset analysis of the data for this group to better understand the mechanism of action. Results for the subgroup of patients on hormonal therapy showed a median time to disease progression of 8.3 months for patients treated with Theratope versus 5.8 months for those patients on control. The median survival was 38.2 months in the Theratope arm versus 30.7 months in the control arm, a difference of 7.5 months.

Although the Companies do not believe that the current data will support a registration, further analyses are being conducted to determine a mechanism of action to explain how this subset of women appeared to benefit from Theratope. The Company's current focus will be to complete the hormonal treatment subset analysis from the Theratope Phase III trial, and depending on the findings, to initiate formal discussions with the key regulatory agencies for the purpose of clarifying clinical development strategy. If the findings indicate a significant clinical benefit that warrants confirmatory trials, the Companies will assess the parameters for further studies. As the interaction between Theratope and the hormone treatment regimen becomes better understood, the findings should provide the Companies with a solid clinical basis for formal discussions with regulatory authorities towards moving the product forward. These discussions with regulatory authorities could occur in the second half of 2004. Biomira has also launched clinical studies to investigate opportunities for Theratope in other cancer indications and in concert with other treatment programs. In October 2002, a second Phase II trial for Theratope was initiated for women with metastatic breast cancer who are being treated with aromatase inhibitors, a type of hormonal therapy, or Faslodex™ (fulvestrant), an estrogen-receptor antagonist. The study's primary objective is to determine the response of the immune system in these patients. Although this is a different patient group, results from this study may provide further insight into the results of the subset analysis of the hormonal treatment group from the Phase III clinical trial.

Biomira's other late stage product candidate, L-BLP25, has completed a Phase IIb 171 patient clinical trial in Stage IIIb and Stage IV non-small cell lung cancer patients. Results from this trial were announced in early April 2004. Results indicate that the median survival of those patients on the vaccine arm was 4.4 months longer than those on the control arm. This compelling clinical data showed that the median survival was 17.4 months for patients on the vaccine arm versus 13 months on the control arm.

From a clinical standpoint, what is also important is that when looking at the two-year survival for Stage IIIb locoregional patients, those patients with a lower burden of disease, the percentages were 60 per cent for the vaccine arm (median survival not yet reached) versus 36.7 per cent for the control arm (median survival of 13.3 months). In the overall patient population, where we include patients with higher stages of disease, those patients with Stage IIIb plural effusion and Stage IV cancer, the percentages are 43.2 per cent for the vaccine arm versus 28.9 per cent for the control arm.

In the near term, it is expected that the Company's primary efforts will focus on the clinical advancement of its lead product candidates to position them for further testing and possible registration. At the same time, the Company will continue to investigate all opportunities for collaboration and/or in-licensing with respect to those technologies that are complementary to its core platforms that demonstrate strong potential for commercialization.

Business Strategy

Biomira's corporate strategy with respect to core proprietary technologies has been to retain sole ownership until the programs are closer to commercialization to allow negotiation of potential alliances on more favourable terms. The collaboration with Merck KGaA exemplifies this philosophy. The terms of the collaboration validated the Company's strategy to retain the rights to its core technologies and to take a lead role in both the development and regulatory processes. At the same time, Biomira benefits from the collaboration through leveraging the expertise and experience of Merck KGaA in the development and commercial phases of the product strategy.

Biomira recently announced a new collaboration with Prima BioMed Ltd. (Prima BioMed) of Melbourne, Australia and its subsidiary, CancerVac Pty Ltd. (CancerVac), for the development

and commercialization of CancerVac's most advanced cancer vaccine product candidate. Biomira will provide CancerVac with access to certain licensed rights to a protein called MUC1 in relation to CancerVac's Mannan-MUC1 fusion protein immunotherapeutic. CancerVac has developed an immunotherapy that utilizes the patient's own dendritic cells treated ex-vivo to stimulate a cellular immune response following re-injection of the cells into the patient. CancerVac plans to initiate patient recruitment into a Phase IIa trial in patients with metastatic ovarian cancer in the second quarter of 2004.

With respect to non-core technologies in its pipeline, the Company is currently evaluating potential opportunities for these programs, including out-licensing and partnering arrangements.

Concurrent with its clinical development initiatives, Biomira will undertake only those pre-commercialization activities that are critical to support a potential rapid market launch in the event of product approval, pending the outcome of the pivotal trials for Theratope and L-BLP25 and discussions with the regulatory agencies with respect to their advancement.

Results of Operations

Overview of 2003

Consolidated net losses for the years 2003, 2002, and 2001 were $19.0 million, $31.4 million, and $38.7 million, respectively. The positive trend in financial performance over the past three years is primarily attributed to declining clinical development expenditures that reflect the maturity of Biomira's late stage product candidates, as well as the decision to in-license promising technology rather than funding internal research and development. For 2003, the $12.4 million or 39% decrease in the year over year loss came mainly from a $13.6 million reduction in research and development expenditures in 2003, plus lower general and administrative, marketing and business development, and amortization expenses of $1.2 million, $0.8 million and $0.9 million, respectively. A reduction in revenues of $1.9 million and $2.3 million in investment and other income offset the cost savings. Included in the net loss for 2002 was a non-recurring charge of $2.5 million related to the Company's cost reduction initiative announced in October 2002.

Revenues

Revenues from operations for the years ended 2003, 2002, and 2001 were $3.4 million, $5.3 million, and $7.3 million, respectively. The majority of the 2003 decrease of $1.9 million or 36% from the prior year stems from lower Merck KGaA collaborative funding revenue of $1.7 million related to reduced clinical expenditures as the Theratope Phase III trial wound down in the first half of 2003. The remaining decrease is due to lower licensing, royalty, and other revenues of $229,000 due to a one-time research contract in 2002.

Operating revenues were generated largely from research and development contracts, out-licensing agreements, and royalties, while non-operating revenues consisted primarily of investment income. Operating revenues are not expected to increase significantly until certain milestone payments tied to clinical success have been earned, and commercialization of one or more of the Company's products has occurred. Pending these outcomes, the Company will continue to explore licensing opportunities and collaborative alliances for emerging technologies in its pipeline that may contribute to future revenue generation.

Operating expenses

Research and development

For the three years ended 2003, 2002, and 2001, the Company incurred $14.7 million, $28.3 million, and $42.1 million respectively in direct research and development costs. The lower 2003 research and development expenditures compared to 2002, a decrease of $13.6 million or 48%, are attributable to significantly lower clinical development and manufacturing expenses as the Theratope Phase III trial wound down around mid-year, coupled with cost savings from the 2002 cost reduction initiative. Approximately $8.3 million or 56% of gross research and development costs incurred in 2003 (2002 - $15.5 million or 55% respectively) were directly associated with the Theratope program. Included in 2002 expense was a $1.9 million restructuring charge related to workforce reduction and facility exit costs.

General and administrative

General and administrative expenses for 2003, 2002, and 2001 were $5.9 million, $7.1 million, and $7.5 million, respectively. The 2003 expenditures represent a decrease of 17% over the previous year due primarily to cost savings from the restructuring announced in late 2002, as well as planned spending cutbacks.

Marketing and business development

Marketing and business development expenses, $1.3 million in 2003, $2.1 million in 2002, and nil for 2001, represent program expenditures associated with the development of Biomira's internal marketing capabilities, as well as marketing activities related to Theratope jointly undertaken and co-funded with Merck KGaA under the terms of the collaborative agreement. The 2003 decrease of $819,000 or 38% from the prior year results from pre-commercialization activities initiated in 2002 that were subsequently deferred following the June 2003 Theratope Phase III final analysis.

Amortization of capital assets

In 2003, amortization of capital assets of $446,000, compared to $1,349,000 in 2002 and $1,285,000 in 2001, was lower than 2002 by $903,000, due largely to a one-time impairment charge of $420,000 in 2002 on non-recoverable leasehold improvements and redundant assets from the downsizing of Biomira's U.S. operations. The remaining variance with respect to 2002, and the bulk of the variance relating to 2001, arises from full amortization of some assets in 2003, coupled with significant reductions in capital spending in 2003 compared to prior years.

Investment and other (expense) income

Investment revenue of $1.0 million in 2003, down from $2.2 million in 2002, and $3.8 million in 2001, is attributable to lower average investment balances in 2003 coupled with lower portfolio returns and continued market instability. Offsetting investment income was a net foreign exchange loss of $1.3 million on U.S. dollar holdings due to the appreciation of the Canadian dollar against the U.S. dollar, compared to a 2002 loss of $208,000 and a gain of $736,000 in 2001.

With ongoing redemption of investments, coupled with analyst expectations of continuing low market yields for 2004, the Company anticipates that, in the coming year, investment income will be at approximately the same level of return as in 2003. Should new financings be

completed during 2004 and in subsequent years, incremental investment income will be commensurate with the funds raised.

Liquidity and Capital Resources

Liquidity

As at December 31, 2003, Biomira's cash and cash equivalents and short-term investments were $41.5 million compared to $37.2 million at the end of 2002, an increase of $4.3 million or 12%. Major contributors to the net change included $36.3 million in new financing, offset by $23.9 million used in operations, and $8.1 million used for the retirement of obligations relating to convertible debentures and capital leases.

Working capital increased by $8.7 million over 2002, to $37.8 million from $29.1 million, with $4.3 million from the increase in cash reserves, and the rest coming from a $5.2 million reduction in current liabilities, largely in clinical development costs. During 2003, the Company used $23.8 million (2002 - $36.4 million; 2001 - $23.9 million) for operating activities, a $12.6 million or 35% decrease from the prior year, driven by lower clinical expenditures and headcount reductions.

Over the term of the convertible debentures, with Biomira's low share price being a major factor, the Company had elected to repay principal and interest instalments entirely in cash to mitigate dilution of share value for investors. The retirement of the debentures in May 2003 eliminated approximately $1.3 million of committed cash flow per month for the remainder of 2003 compared to the previous year.

Given overall lower cash burn, and assuming no significant change to the current level of operations, the Company believes that it has sufficient cash reserves to operate well into 2005. Should discussions with the regulatory agencies lead to Phase III registration trials for L-BLP25 and/or Theratope, the Company will seek additional financing to support the additional expenditures associated with these pivotal Phase III trials. These trials could commence as early as 2005.

Financing

During 2003, the Company raised $2.4 million by issuing 1,366,817 common shares under the terms of the 1999 U.S. $100 million equity line, compared to $4.2 million and 1,229,012 shares, respectively, in 2002. Over the term of the facility, which had been the Company's primary financing vehicle until June 2003, $76 million in financing was raised through issuance of 7.5 million shares.

Anticipating future funding requirements to complete its clinical programs, Biomira registered a U.S. $150 million Base Shelf Prospectus with certain securities commissions in Canada and the U.S. Securities and Exchange Commission in April 2002. Due to continuing market weakness and Biomira's low share price, which substantially restricted availability of financing on acceptable terms, the Company did not access this facility in 2002. In the spring of 2003, improved conditions were conducive to utilizing the Shelf Prospectus.

In May 2003, Biomira completed an $8.0 million (U.S. $5.5 million) equity offering consisting of 4,824,562 common shares and 814,815 detachable warrants. Also in May 2003, a second placement raised gross proceeds of $5.2 million (U.S. $3.7 million) through issuance of 3,245,614 common shares and 548,148 detachable warrants. For both offerings, which were fully subscribed, the share units were priced at U.S. $1.14, and the warrants at U.S. $1.66. The warrants expire two years after the issue date if not exercised. After total issue costs of $737,000, net proceeds were $12.4 million. In addition to an underwriting commission of 4%, the placement agent received 80,702 warrants with a strike price of U.S. $1.74, expiring two years from date of issuance.

In October 2003, the Company completed a third equity financing for $21.8 million (U.S. $16.3 million) through issuance of 9,000,000 shares and 2,070,000 detachable warrants. This placement was priced at U.S. $1.81, with the warrants set at an exercise price of U.S. $2.30; these warrants also expire approximately two years from date of issuance. Net proceeds, after deducting total issue costs of $999,000, were $20.8 million. Compensation of the placement agent was the 4% underwriting commission plus 30,000 warrants at a strike price of U.S. $2.30, expiring approximately two years from date of issuance.

Capital resources

From inception, Biomira has financed its research and development, operations, and capital expenditures primarily through public and private sales of its equity securities, licensing and collaborative arrangements, and investment income. To maximize value from its capital resources and ensure overall financial stability, Biomira maintains a comprehensive financial planning, budgeting, monitoring, and governance system that imposes a disciplined approach to fiscal management. The Company's investment guidelines of capital preservation and security of income restrict the portfolio to holding only liquid, investment-grade securities with maturities aligned to projected cash requirements.

Under the U.S. $150 million Base Shelf Prospectus, just under U.S. $125 million is still available for future financings until its expiry in May 2004. In addition, there are 4.25 million warrants outstanding, at a weighted-average exercise price of U.S. $3.74. Based on Biomira's NASDAQ closing share price of $1.69 on December 31, 2003, approximately 1.096 million warrants, expiring in April and May 2005, were in the money, representing approximately $2.4 million (U.S. $1.8 million) if fully exercised. Assuming continuing investor support for Biomira's equity offerings, the Company intends to pursue future financing opportunities through either a new Shelf Registration, or a similar financing vehicle.

To meet future requirements, the Company intends to raise cash or improve liquidity through some or all of the following methods: public or private equity or debt financings, capital leases, and collaborative and licensing agreements. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The dynamics of the biotechnology sector, and in particular the uncertainty inherent in the Company's clinical programs, may make it difficult to raise significant new capital at reasonable cost. Consequently, the Company's ability to generate additional cash is contingent on many external factors beyond the control of the Company, as described in "Risks and Uncertainties." Should sufficient capital not be raised, the Company may have to delay, reduce the scope of, eliminate, or divest one or more of its lead technologies or programs and related personnel, any of which could impair the current and future value of the business.

Contractual Obligations and Contingencies

In its continuing operations, the Company has entered into long-term contractual arrangements from time to time for its facilities, debt financing, the provision of goods and services, and acquisition of technology access rights, among others. The following table presents contractual obligations arising from these arrangements currently in force over the next ten years:

	Payments Due by Year				
($000s)	2004	2005 to 2006	2007 to 2008	2009 to 2013	Total
Operating leases - premises	646	165			**811**
Operating leases - equipment	20	26			**46**
Capital lease obligations	113				**113**
Licensing fees and royalties	420	65	65	162	**712**
Other long-term obligations	26				**26**
Total contractual obligations	**1,225**	**256**	**65**	**162**	**1,708**

Other than leases for premises and equipment, the Company has no long-term debt obligations. Although the corporate facilities lease will expire in 2005, the Company fully expects to renew at approximately the same rates and terms; or alternatively, negotiate other premises on similar commercial terms.

With the exception of capital leases, the obligations described above are non-cancellable operating leases or commitments that do not meet the criteria for accounting recognition of an asset and an obligation under CICA Handbook section 3065 *Leases*. The contractual terms provide for periodic lease payments and return of the equipment at the end of the lease. For the current fair values of the Company's capital leases, refer to Note 17 *Financial Instruments* in the notes to the 2003 consolidated financial statements.

Under certain licensing arrangements for technologies incorporated into Biomira's product candidates, the Company is contractually committed to payment of ongoing licensing fees and royalties, as well as contingent payments when certain milestones as defined in the agreements have been achieved. Except for these commitments under licensing agreements, there are no continuing and unconditional purchase obligations for goods and services at this time.

With respect to its contingent liabilities, the Company settled the litigation relating to HealthVISION Corporation in March 2004. The plaintiff initiated a civil action in January 1996 pursuant to specific and general representations and warranties that the Company had provided in conjunction with the sale of its investment in HealthVISION Corporation to the plaintiff in February 1994. Details of the litigation have been disclosed in Note 16 *Contingencies, Commitments, and Guarantees* of the notes to the 2003 consolidated financial statements.

Key Value Drivers

At the start of 2004, the Company believes that it has in place several key value drivers that may increase shareholder value in the future. Most important are the Company's mature technologies, whose success is contingent on clinical validation of the underlying science and approval by the regulatory authorities. The value drivers for these late stage products include: market potential for L-BLP25; the potential clinical advancement for both L-BLP25 in NSCLC and potentially other cancer indications and Theratope in patients on hormone therapy; out-licensing opportunities for early stage product technologies; and a strong and established corporate alliance with Merck KGaA. Biomira has also established a collaborative arrangement with Prima BioMed and its subsidiary CancerVac of Melbourne, Australia. This collaboration could lead to the development of a second product candidate for the MUC1 protein. The commercial potential of these products are considered to be key drivers for building long-term shareholder value. However, adverse clinical results for the Company's product candidates could significantly erode their underlying value, and other value drivers as well.

In the Company's view, its other value drivers enable it to exploit its leading technologies in synthetic cancer vaccines. These competitive advantages include, among others, Biomira's strong intellectual and human capital, a lean and focused work force, proven management, a successful track record in conducting large-scale multinational clinical trials, and well-established financing relationships and access to risk capital. If Biomira is to realize its strategic vision to develop novel and effective treatments for cancer, the future success of the Company will largely depend on focusing the creative talents and energy of its employees on the overarching goal - the timely and prudent commercialization of its intellectual property.

Through a global development and North American co-promotion agreement with Merck KGaA executed in 2001, Biomira is able to capitalize on the strengths of a major partner in product development, manufacturing, and commercialization of new products. Since inception, this relationship has solidified through close functional collaboration on a number of fronts, including clinical, regulatory, marketing, and finance. Merck KGaA's representation on the Biomira board of directors deepens the commitment of the parties to this relationship. Through the Prima BioMed / CancerVac collaboration recently concluded, the Company has established another important driver for future value creation.

On the supply side, the Company has made a strategic choice not to invest in internal capability to manufacture commercial quantities of pharmaceutical products, but to outsource its product manufacturing requirements. Consequently, Biomira retains strategic flexibility to commit capital and resources opportunistically. The ability to negotiate value-added supply agreements with various contract manufacturing and distribution companies capable of meeting rigorous quality specifications and commercial scale demand, and to manage these relationships effectively, will be critical to future success.

Financing is both a key element of corporate strategy as well as a critical resource in executing that strategy. Biomira has had demonstrable success in attracting, and establishing relationships with, risk capital providers. Biomira registered a U.S. $150 million Base Shelf Prospectus in 2002 in Canada and the U.S., with $33.2 million ($U.S. $25.5 million) in new equity realized to date through this vehicle. Should new clinical trials be required, and market conditions are conducive for another round of financing, the Company will consider registration of a new Base Shelf Prospectus or similar financing vehicle. Ultimately, access to financing as a key value driver will depend on a compelling investment story - success in all facets of the Company's business including research, clinical development, management performance, strategic partnerships, and financial results.

Outlook

The Company expects that clinical development expenses will be lower in 2004 due to winding up the Theratope Phase III trial. Biomira's strategy for Theratope will be heavily dependent on the results of formal discussions with the regulatory authorities regarding the large pre-stratified subset of patients that appeared to show clinically important survival benefit while on hormonal treatment following chemotherapy.

Another critical event in determining Biomira's future clinical direction was the release of the positive Phase IIb results for L-BLP25. These results could lead to the commencement of a Phase III registration trial in NSCLC. There is also potential for additional clinical trials involving Theratope. Both vaccines could also be considered for potential use in other cancer indications. All of these scenarios would increase clinical trial spending over several years. Consequently, Biomira anticipates losses for the foreseeable future as its lead product candidates undergo further clinical assessment and/or development.

Management believes that the Company's cash and short-term investments, together with expected cash inflows from royalties, collaborative funding arrangements, and investment income, will be sufficient to meet operating and capital requirements into 2005. However, as plans are developed for a potential pivotal Phase III registration trial for L-BLP25 in NSCLC, and the outcome of the Theratope Phase II study in women treated with hormonal therapy become known and future plans developed, research and development expenditures could increase significantly, necessitating new financing.

The Company's ability to generate cash in 2004 and beyond will depend on several factors. Among others, these include clinical and regulatory support for the further development of Theratope and L-BLP25; the availability of new financing through private and/or public offerings on acceptable terms; the timely advancement of clinical studies; the costs in obtaining regulatory approvals for its products; and the value and timing of securing licensing and collaborative arrangements in building the Company's pipeline.

The coming year will be critical in shaping the Company's future direction, hinging on its ability to develop a viable product strategy and to attract ongoing investment. Management remains firmly committed to its long-term goal to deliver value for the shareholders.

Except for historical information, certain matters discussed in this section are by their nature forward-looking and are therefore subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made. Some of these risks and uncertainties are inherent to the biotechnology industry, while others are specific to Biomira; some of these factors are predictable or within the control of the Company, others not. These include, but are not limited to: changing market and industry conditions; clinical trial results; the establishment of new corporate alliances; the impact of competitive products and their pricing; timely development of existing and new products; the difficulty of predicting regulatory approval and market acceptance for the Company's products; availability of capital or other funding; the ability to retain and recruit qualified personnel; and other risks, known or unknown.

Risks and Uncertainties

Based on ongoing assessment of its risk profile, the Company has concluded that there has been no material change in the nature and magnitude of the risks described below, except as noted otherwise.

The future performance of Biomira is contingent on a number of critical factors: the Company's success in bringing new products to the marketplace; the Company's ability to generate royalty or other revenues from licensed technology; its ability to generate positive cash flow from operations and equity financing; and maintaining effective collaborative relationships. In addition, future success will depend on the efficacy and safety of the Company's products, timely regulatory approval for new products and new indications, and the degree of patent protection afforded to particular products. After overcoming regulatory and patent hurdles, in order to succeed Biomira must continue to secure adequate manufacturing capacity to produce commercial quantities of its products, ensure that the processes and facilities of its manufacturing partners meet regulatory standards for production quality, and develop an effective distribution and marketing network. Commercial viability requires widespread acceptance of the Company's products by the medical community, as well as by a majority of health care plans and payers in the key markets. Last, but not least, over the long term operating effectiveness depends critically on the Company's ability to recruit, retain, and develop human resources, which is exposed to the risks and uncertainties of a tight labour market for unique skills relating to biotechnology research, development, and management.

There can be no assurance that new competitive products will not be more efficacious, brought to market sooner and/or marketed more effectively, or at lower cost, than any that the Company may develop. Competitors may also be able to develop non-patent infringing product strategies that may be as good as or better than the Company's patent-protected products. Biomira believes that it has strong proprietary and/or patent protection, or the potential for strong patent protection, for a number of its products currently under development; however, the ultimate power of patent protection may be determined by the courts and/or changes in patent legislation in various countries.

As part of its risk management strategy, Biomira transfers some risks through its insurance program. Notwithstanding a difficult market for insurance, in addition to standard business risks Biomira has obtained aggregate blanket insurance coverage of $18 million (U.S. $10 million and CAD $5 million excess liability) for potential clinical trial liability. Given the scope and complexity of the clinical development process, the uncertainty of product liability litigation, and the shrinking capacity of insurance underwriters, it is not possible at this time to assess the adequacy of current clinical trial insurance coverage, nor the ability to secure continuing coverage at the same level and at reasonable cost in the foreseeable future.

The Company's investment earnings are exposed to financial market risks arising from volatility in interest and foreign currency exchange rates, as well as to overall market conditions. The Company also has exposure to exchange risk through its collaboration revenues, licensing and royalty commitments, product manufacturing costs, clinical development expenses, and both subsidiary operations and statement translation. Of the Company's total expenditures in 2003, a significant portion was denominated in U.S. currency. Since the Company's primary cash flows from collaboration revenues and the Shelf Prospectus are likewise denominated, they partially offset U.S. cash requirements. The Company minimizes its exchange risk through prudent cash management to ensure that foreign currency requirements and surpluses are effectively aligned; and, from time to time, Biomira may engage in hedging or use derivatives to manage specific financial exposures. However, the Company does not use derivatives solely for speculative or trading purposes.

Interest rate risk is the exposure of interest revenue and expense to rate fluctuation; inflation risk is loss of purchasing power due to rising prices. Economic forecasts project a stable

outlook for low inflation and interest rates in the near future; hence, these risks are expected to be negligible. Furthermore, the Company's debt obligations, primarily capital and operating leases at this time, have fixed rates over the terms of the commitments.

Due to the inherent uncertainty in the Company's business prospects and of the life sciences sector in general, the equity markets have amplified the company risk factor for Biomira. Biomira's share price is subject to equity market price risk, which may result in significant market speculation and volatility of trading. Given the current low share price and the possibility of further decline, there is a risk that future issuance of common shares under the remainder of the U.S. $150 million Shelf Prospectus, which expires May 2004, and the potential exercise of stock options and warrants, may result in material dilution of share value, which may then lead to even lower share prices. Finally, the investment guidance and decisions of securities analysts and major investors in response to the Company's financial or scientific results, and/or the timing of such results and expectations about future prospects, could also have a significant effect on investor support, future share price, and availability of financing opportunities.

Critical Accounting Policies and Accounting Estimates

The Company has adopted several accounting policies in accordance with Canadian GAAP, application of which requires management to make assumptions and estimates that could significantly affect the results of operations and financial position. The current accounting policies and future changes are discussed below.

Revenue recognition

Licensing, royalty, and contract research revenues are recognized as services are performed under the terms of the related contractual agreements. Currently, Biomira also earns revenue from collaborative agreements, which typically consists of initial technology access or licensing fees and milestone payments triggered by specified events. Initial lump sum payments for such fees and licenses are recorded as deferred revenue when received and recognized as revenue on a systematic basis over the term of the license agreement or the related product life cycle, whichever is shorter. Milestone payments are recognized as revenue upon performance of obligations defined as milestones in the agreements.

Application of this policy affects primarily the timing, rather than the amount, of revenue recognition for upfront payments. Such upfront payments from collaborative agreements are amortized over the estimated product life cycle, as this is determined to best match the future benefits derived from such agreements.

Research and development

Under current accounting standards, the Company must expense all research costs, which may include technology access fees related to the use of proprietary third party technologies, as incurred. Certain product development costs may be deferred and amortized once technical and market viability have been established.

To date, no product research and development costs have been deferred. As the Company does not currently have any approved products, there has been no economic or accounting rationale for deferring such costs. Should the regulatory agencies approve a clinical product, management will review qualifying development costs to determine an appropriate amount for deferral. Furthermore, a realistic commercial life must be estimated. Consequently, earnings will be significantly impacted in the period that such costs are capitalized, and also in each subsequent accounting period as they are amortized.

Reporting currency and foreign currency translation

Biomira uses the Canadian dollar as its functional and reporting currency. In accordance with Canadian GAAP, the Company applies the temporal method of translation for its integrated foreign operations, which is based on the Canadian dollar as the unit of measure for assets, liabilities, revenues, and expenses. This method requires that monetary items be translated at the exchange rate in effect as at the balance sheet date, while non-monetary items are translated at their historical exchange rates. Revenues and expenses are translated at the exchange rates in effect when they occur, while amortization and depreciation of assets use the same historical rate as the assets to which they relate.

Stock-based compensation

As permitted under Canadian GAAP, the Company has elected to continue measuring compensation costs based on the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an optionee must pay to acquire the stock. As the exercise prices of the options approximate market value at the grant date, no compensation expense has been recognized under the stock option plan.

However, proposed changes to the accounting standard effective in 2004 would require that all stock options be expensed at fair value on the grant date, as described in the following section.

Impact of new accounting pronouncements

In December 2003, amended CICA Handbook section 3870 *Stock-Based Compensation and Other Stock-Based Payments* will require recognition of all stock options at fair value and eliminate the pro forma disclosure election. The amended standard will be effective for fiscal years beginning after January 1, 2004, affecting primarily employee stock-based transactions. Remaining unchanged is the requirement to expense stock-based compensation for non-employees, equity-settled appreciation rights, and awards settled in cash or other assets that was in effect for fiscal years beginning after January 1, 2002. The new standard prescribes retroactive application upon adoption by the Company in 2004. Retroactive application requires an adjustment to opening retained earnings for compensation expense arising from options granted since January 1, 2002 and restatement of prior periods presented. The Company does not expect that implementing this standard in 2004 on a retroactive basis will be materially different from the pro forma disclosure in Note 9 of the 2003 consolidated financial statements.

In November 2003, CICA Handbook section 3860 *Financial Instruments – Disclosure and Presentation* was amended to require that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. As such obligations indicate a debtor/creditor relationship rather than an ownership one, their current treatment, as equity instruments, is inconsistent with the substance of the relationship. The amendments to CICA 3860 are expected to be effective for fiscal years beginning after November 1, 2004, and would be applied retroactively, thus requiring restatement.

Forward-Looking Statements

Except for historical information, certain matters discussed in this document are by their nature forward-looking and are therefore subject to risks and uncertainties, which may cause actual results to differ materially from forward-looking statements. Various factors could cause actual results to differ materially from projections, including those predicting the timing or availability of clinical trial analyses; efficacy, safety and clinical benefit of products; ability to secure, and timing of, regulatory clearances; timing of product launches in different markets; adequacy of financing and reserves on hand; scope and adequacy of insurance coverage; retention and performance of contractual third parties, including key personnel; the achievement of contract milestones; currency exchange rate fluctuations; changes in general accounting policies; and general economic factors. Although the Company believes that the forward-looking statements contained herein are reasonable, it can give no assurance that the Company's expectations are correct. All forward-looking statements are expressly qualified in their entirety by this cautionary statement. A detailed description of the Company's risks and uncertainties is included in its filings with the U.S. Securities and Exchange Commission and Canadian securities authorities.

Additional Company Information

Further information on Biomira Inc. may be found in its regulatory filings, including its Annual Information Form, quarterly reports, and proxy circulars filed with the Canadian securities commissions through SEDAR at *www.sedar.com*. The Company's filings with the U.S. Securities and Exchange Commission may be obtained through EDGAR on the SEC's web site at *http://www.sec.gov/edgar/searchedgar/companysearch.html*.

Supplemental Information

Selected Annual Information

(expressed in 000s, except per share data)

	2003	2002	2001
Statement of Operations			
Total revenues	**$ 3,416**	$ 5,304	$ 7,336
Total expenses	**$ 22,387**	$ 38,901	$ 50,885
Other (expense) income	**$ (3)**	$ 2,238	$ 4,870
Net loss	**$(18,974)**	$(31,359)	$(38,679)
Net loss per share	**$ (0.31)**	$ (0.68)	$ (0.75)
Weighted-average number of common shares outstanding	**62,498**	52,996	51,502
Balance Sheet			
Working capital	**$ 37,810**	$ 29,063	$ 71,457
Total assets	**$ 43,065**	$ 39,969	$ 89,189
Total long-term liabilities	**$ 30**	$ 126	$ 293
Shareholders' equity	**$ 31,750**	$ 22,289	$ 64,588
Common shares outstanding	**72,545**	53,796	52,377

Summary of Quarterly Results

(expressed in 000s, except per share data)

	Q1	Q2	Q3	Q4	Annual
2003					
Total revenues	**$ 1,166**	**$ 897**	**$ 679**	**$ 674**	**$ 3,416**
Research and development costs	**$ 4,122**	**$ 4,292**	**$ 3,433**	**$ 2,853**	**$ 14,700**
Net loss	**$ (4,360)**	**$ (5,532)**	**$ (4,450)**	**$ (4,632)**	**$ (18,974)**
Net loss per share	**$ (0.09)**	**$ (0.09)**	**$ (0.08)**	**$ (0.07)**	**$ (0.31)**
Common shares outstanding	**54,226**	**63,542**	**63,546**	**72,545**	**72,545**
Weighted-average number of common shares outstanding	**54,019**	**56,910**	**59,145**	**62,498**	**62,498**
2002					
Total revenues	$ 1,255	$ 1,393	$ 1,380	$ 1,276	$ 5,304
Research and development costs	$ 6,579	$ 7,114	$ 6,978	$ 7,633	$ 28,304
Net loss	$ (7,573)	$ (7,828)	$ (7,408)	$ (8,550)	$ (31,359)
Net loss per share	$ (0.17)	$ (0.18)	$ (0.16)	$ (0.18)	$ (0.68)
Common shares outstanding	52,568	52,982	53,378	53,796	53,796
Weighted-average number of common shares outstanding	52,491	52,633	52,817	52,996	52,996

Outstanding Share Data

As at March 31, 2004, the following classes of shares and equity securities potentially convertible into common shares were outstanding:

Class A Preference Shares (non-voting)	12,500
Class B Preference Shares (non-voting)	nil
Common shares	72,558,982
Convertible equity securities:	
Stock options	4,362,597
Warrants	4,251,999

Upon exercise, the stock options and warrants are convertible into an equal number of common voting shares. Had the stock options and warrants been fully exercised, the aggregate number of common shares outstanding would be 81,173,578 as at March 31, 2004.

For details relating to the stock options and warrants, please refer to Notes 9 and 8, respectively, of the notes to the 2003 audited consolidated financial statements.

Management Responsibility for Financial Reporting

The accompanying consolidated financial statements of Biomira Inc., and all information presented in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, which differ in some respects from those used in the United States. The significant differences in accounting principles, as they pertain to the financial statements, are identified in the related notes. The financial statements include some amounts that are based on best estimates and judgments of management. Financial information used elsewhere in this annual report is consistent with that in the financial statements.

To further the integrity and objectivity of data in the financial statements, the management of the Company has developed and maintains a system of internal accounting controls, which management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for oversight of the financial statements in this annual report principally through its Audit Committee. The Board appoints the Audit Committee and the majority of its members is comprised of outside and unrelated directors. In addition to being independent of management, at least one member of the Audit Committee must be qualified as a financial expert as required under the Sarbanes-Oxley Act of 2002. The committee meets periodically with management as well as quarterly with the external auditors, to discuss internal controls over the financial reporting process and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual financial statements, and the external auditors' report. The committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without management being present.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP.

T. Alexander McPherson, MD, PhD
President and Chief Executive Officer

Edward A. Taylor, CGA
Vice President Finance and Administration
and Chief Financial Officer

Independent Auditors' Report

To the Shareholders of
Biomira Inc.

We have audited the consolidated balance sheets of Biomira Inc. as at December 31, 2003 and 2002, and the consolidated statements of operations, deficit, and cash flow for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flow for each of the years in the three-year period ended December 31, 2003, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Edmonton, Alberta, Canada
February 20, 2004

Comments by Auditors for U.S. Readers on Canada – U.S. Reporting Differences

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) outlining changes in accounting principles that have been implemented in the financial statements. Changes in accounting principles are described in Note 3 to the financial statements. Our report to the shareholders, dated February 20, 2004, is expressed in accordance with Canadian reporting standards, which do not require a reference to such changes in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

Deloitte & Touche LLP

Chartered Accountants
Edmonton, Alberta, Canada
February 20, 2004

Consolidated Balance Sheets

As at December 31
(expressed in thousands of Canadian dollars, except share amounts)

	2003	2002
ASSETS		
CURRENT		
Cash and cash equivalents	$ 24,062	$ 8,507
Short-term investments	17,443	28,682
Accounts receivable (Note 4)	459	1,207
Prepaid expenses	460	497
	42,424	38,893
CAPITAL ASSETS (Note 5)	641	1,076
	$ 43,065	$ 39,969
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 6)	$ 3,453	$ 8,580
Current portion of capital lease obligation (Note 7)	108	169
Accrued interest on convertible debentures (Note 10)	-	28
Current portion of deferred revenue (Note 12)	1,053	1,053
	4,614	9,830
CAPITAL LEASE OBLIGATION (Note 7)	-	96
DEFERRED REVENUE (Note 12)	6,671	7,724
CLASS A PREFERENCE SHARES (Note 8)	30	30
	11,315	17,680
CONTINGENCIES, COMMITMENTS, AND GUARANTEES (Notes 7 and 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Issued and outstanding - 72,545,232 and 53,795,573	359,643	328,537
Convertible debentures (Note 10)	-	7,614
Warrants (Note 8)	8,555	3,338
Contributed surplus	8,901	8,901
Deficit	(345,349)	(326,101)
	31,750	22,289
	$ 43,065	$ 39,969

(See accompanying notes to the consolidated financial statements)

APPROVED BY THE BOARD

Director

Director

Consolidated Statements of Operations

Years ended December 31
(expressed in thousands of Canadian dollars, except share amounts)

	2003	2002	2001
REVENUE			
Contract research and development (Note 12)	**$ 2,309**	$ 3,967	$ 4,851
Licensing revenue from collaborative agreements (Note 12)	**1,053**	1,054	703
Licensing, royalties, and other revenue	**54**	283	1,782
	3,416	5,304	7,336
EXPENSES			
Research and development	**14,700**	28,304	42,117
General and administrative	**5,920**	7,108	7,483
Marketing and business development (Note 12)	**1,321**	2,140	-
Amortization of capital assets	**446**	1,349	1,285
	22,387	38,901	50,885
OPERATING LOSS	**18,971**	33,597	43,549
Investment and other (expense) income (Note 14)	**(295)**	1,990	4,579
Interest expense (Note 7)	**(20)**	(43)	(33)
Gain on disposal of capital assets	**61**	-	-
LOSS BEFORE INCOME TAXES	**19,225**	31,650	39,003
Income tax benefit (Note 15)	**251**	291	324
NET LOSS	**$ 18,974**	$ 31,359	$ 38,679
BASIC AND DILUTED LOSS PER SHARE (Note 11)	**$ 0.31**	$ 0.68	$ 0.75
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	**62,497,986**	52,996,080	51,502,189

Consolidated Statements of Deficit

Years ended December 31
(expressed in thousands of Canadian dollars)

	2003	2002	2001
DEFICIT, BEGINNING OF YEAR	**$ 326,101**	$ 290,116	$ 251,192
Net loss for the year	**18,974**	31,359	38,679
Accretion of convertible debentures (Note 10)	**713**	4,036	-
Interest, foreign exchange (gain) loss, and carrying charges on convertible debentures (Notes 10,14)	**(439)**	590	245
DEFICIT, END OF YEAR	**$ 345,349**	$ 326,101	$ 290,116

Consolidated Statements of Cash Flow

Years ended December 31
(expressed in thousands of Canadian dollars)

	2003	2002	2001
OPERATING			
Net loss	**$ (18,974)**	$ (31,359)	$ (38,679)
Amortization of capital assets	**446**	1,349	1,285
Gain on disposal of capital assets	**(61)**	-	-
Unrealized foreign exchange loss (gain) on cash and cash equivalents	**189**	(39)	(128)
Change in deferred revenue	**(1,053)**	(1,054)	9,831
Net change in non-cash balances from operations:			
Accounts receivable	**733**	194	(989)
Prepaid expenses	**37**	(28)	(17)
Accounts payable and accrued liabilities	**(5,127)**	(5,419)	4,838
	(23,810)	(36,356)	(23,859)
INVESTING			
Decrease (increase) in short-term investments	**11,239**	33,661	(13,416)
Purchase of capital assets	**(12)**	(265)	(662)
Proceeds from disposal of capital assets	**77**	-	-
	11,304	33,396	(14,078)
FINANCING			
Proceeds on issue of common shares and warrants, net of issue costs	**36,323**	4,940	29,009
Proceeds from convertible debentures, net of financing costs (Note 10)	**-**	(24)	22,206
Repayment of convertible debentures (Note 10)	**(7,826)**	(15,213)	-
Interest on convertible debentures (Note 10)	**(91)**	(860)	-
Repayment of capital lease obligation	**(156)**	(204)	(198)
	28,250	(11,361)	51,017
NET CASH INFLOW (OUTFLOW)	**15,744**	(14,321)	13,080
Effect of exchange rate fluctuations on cash and cash equivalents	**(189)**	39	128
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,555**	(14,282)	13,208
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**8,507**	22,789	9,581
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 24,062**	$ 8,507	$ 22,789
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Amount of interest paid in the year	**$ 20**	$ 43	$ 35
Amount of income taxes paid in the year	**$ 5**	$ -	$ -

Years ended December 31
(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

1. DESCRIPTION OF BUSINESS

Biomira Inc. (the Company) is a biotechnology company incorporated under the Canada Business Corporations Act in 1985. The Company is engaged in the development of therapeutic products for the treatment of cancer, applying proprietary and patentable technologies primarily in the fields of immunotherapy and organic chemistry.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), which do not differ materially from those applied in the United States, except as disclosed in Note 18.

Basis of consolidation

The Company's financial statements include the accounts of its wholly owned subsidiaries, Biomira USA Inc., Biomira International Inc., and Biomira Europe BV on a fully consolidated basis. All intercompany balances and transactions have been eliminated upon consolidation.

Accounting estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and cash equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less at the time of purchase.

Short-term investments

Short-term investments, which are liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and with original maturities greater than three months at the time of purchase, are carried at the lower of amortized cost and market value. Gains and losses on disposal of short-term investments are included in investment income in the period of realization. Premiums or discounts are amortized over the remaining maturity of the instrument and reported in investment income in the consolidated statements of operations.

Cash flows associated with short-term investments are presented on a net basis in the cash flow statement as they meet the Canadian Institute of Chartered Accountants (CICA) Handbook criteria for such treatment.

Derivative financial instruments

The Company does not generally utilize derivative financial instruments. However, the Company may use foreign exchange forward contracts in order to reduce the impact of fluctuating foreign currency exchange rates on its foreign currency denominated cash, cash equivalents, and short-term investments. These foreign exchange forward contracts are not designated as hedges. They require the exchange of payments without the exchange of the notional principal amount on which the payments are based. These instruments are recorded at the lower of cost or market whereby gains are recognized upon realization, losses when identified, and both are included in investment and other income in the consolidated statements of operations.

The Company's policy is not to utilize derivative instruments for trading or speculative purposes.

Capital assets and amortization

Capital assets are recorded at cost and amortized over their estimated useful lives on a straight-line basis, as follows:

Scientific equipment	20%
Computer software and equipment	33 1/3%
Office equipment	20%
Leasehold improvements	Term of the lease plus one renewal
Manufacturing equipment	25%
Leased equipment	Term of the lease

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company evaluates the carrying value of capital assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable, and recognizes an impairment charge equal to the difference between the carrying value and estimated future undiscounted cash flows, when it is probable that the estimated future undiscounted cash flows of the underlying assets will be less than the carrying value of the assets.

Goodwill and other intangible assets

Indefinite life assets such as goodwill and other intangible assets are initially recognized and carried at cost. Such assets are not amortized, but are reviewed annually for impairment, or when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When such review indicates that estimated future cash flows or benefits associated with these assets would not be sufficient to recover their carrying value, the excess of carrying value over fair value will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

As at December 31, 2003, no goodwill or other intangible assets have been recorded on the Company's balance sheet.

Revenue recognition

Revenue from contract research and development consists of non-refundable research and development funding received under the terms of collaborative agreements. Such funding compensates the Company for clinical trial expenses related to the collaborative development programs for certain product candidates of the Company, and is recognized as revenue at the time that clinical activities are performed under the terms of collaborative agreements.

Revenue from collaborative agreements typically consists of initial technology access or licensing fees and milestone payments triggered by specified events. Initial lump sum payments for such technology access or licensing fees are recorded as deferred revenue when received and recognized as revenue on a systematic basis over the term of the license agreement or the related product life cycle, whichever is shorter. Milestone payments are recognized as revenue upon performance of obligations defined as milestones in the agreements.

Licensing and royalty revenues, as well as other revenues from third party contracts, are recognized as earned on an accrual basis in accordance with the terms of the contractual agreements.

Research and development costs

The Company expenses research costs, which include technology access fees related to the use of proprietary third party technologies, as incurred.

Certain product development costs are deferred and amortized once technical and market viability have been established. Deferred development costs are amortized on a straight-line basis over the expected commercial life of the related product. Annually, the Company reviews the recoverability of deferred development costs through an evaluation of the expected future discounted cash flows from the associated products, and considers current and future market and regulatory developments to test for permanent impairment.

To date, no development costs have been deferred.

Foreign currency translation

Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at the average exchange rates in effect at the time of such transactions. Monetary assets and liabilities are translated at current rates at the balance sheet date. Gains or losses resulting from these translation adjustments are included in other income or expense.

The operations of the Company's foreign subsidiaries are considered to be integrated foreign operations and, accordingly, are converted to Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date, non-monetary assets and liabilities are translated at the rate in effect when the assets were acquired or liabilities were assumed and items included in the statements of operations at the average exchange rates in effect at the date of such transactions with resulting exchange gains or losses included in the determination of earnings.

Stock-based compensation

The Company sponsors a stock-based compensation plan that is described in Note 9.

The Company measures compensation cost based on the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an optionee must pay to acquire the stock. As the exercise prices of the options approximate market value at the grant date, no compensation expense has been recognized to date under the stock option plan. Under the current standard, companies that elect a method other than fair value accounting are required to disclose pro forma net income and earnings per share information as if the fair value method of accounting had been used. This disclosure only applies to options granted after December 31, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Options granted to non-employees are deemed to be consideration given up in exchange for goods or services and measured using the Black-Scholes option pricing model to determine their fair value, which is charged to the appropriate asset or expense.

Any consideration paid by option holders for the purchase of stock is credited to share capital. If share options are repurchased from the holder, the consideration paid is charged to retained earnings.

Employee future benefits

The Company accounts for obligations for future employee benefits arising from current service on an accrual basis.

Earnings per share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Interest, carrying costs, accretion charges, and foreign exchange gains and losses on repayments of principal and interest associated with convertible debentures are deducted from net earnings for the purpose of calculating earnings per share available to common shareholders.

Diluted earnings per common share are calculated on the basis of the weighted average number of shares outstanding during the period, plus the additional common shares that would have been outstanding if potentially dilutive common shares issuable under stock options and warrants had been issued using the treasury stock method. The calculation of diluted earnings per share also applies the "if converted"' method for convertible debentures, which assumes conversion into common shares outstanding since the beginning of the period.

3. ACCOUNTING POLICY CHANGES

Accounting standards adopted in the current year

Asset retirement obligations

Effective January 1, 2003, the Company adopted the recommendations of CICA Handbook Section 3110, *Asset Retirement Obligations*. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost must be recognized at fair value in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

There is no material impact on the consolidated financial statements resulting from the adoption of Section 3110 either in the current or prior years presented.

Disposal of long-lived assets and discontinued operations

In 2003, the Company adopted amended CICA Handbook Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, which is effective for disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003. The revised section establishes criteria for the classification of long-lived assets as "held for sale" and requires that long-lived assets that are to be disposed of by sale be measured at the lower of carrying value or fair value less cost to sell. It eliminates the previous recommendation that companies include under "discontinued operations" in the financial section amounts for operating losses that have not yet occurred. Additionally, the revised section expands the scope of discontinued operations to include all components of a company with operations that can be distinguished from the rest of the company and will be eliminated from the ongoing operations of the company in a disposal transaction.

There is no material impact on the consolidated financial statements resulting from adoption of Section 3475 in the current year.

Hedging relationships

Effective January 1, 2003, the Company adopted the recommendations of CICA Accounting Guideline 13 (AcG-13), *Hedging Relationships*, which requires that, in order to apply hedge accounting, all hedging relationships must be identified, designated, documented, and effective. Where hedging relationships do not meet these requirements, hedge accounting must be discontinued.

There is no material impact on the consolidated financial statements from the adoption of AcG-13 either in the current year or the prior years presented.

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

3. ACCOUNTING POLICY CHANGES (continued)

Disclosure of guarantees

Effective January 1, 2003, the Company adopted the recommendations of CICA Accounting Guideline 14 (AcG-14), *Disclosure of Guarantees*, which describes the nature and types of guarantees, provides examples of those guarantees covered by the scope of AcG-14, and details the prescribed disclosures.

There is no material impact on the consolidated financial statements resulting from the adoption of AcG-14 either in the current year or the prior years presented.

Accounting standards effective in future years

Asset impairment

In December 2002, the Accounting Standards Board (AcSB) issued CICA Handbook Section 3063, *Impairment of Long-Lived Assets*, effective for fiscal years beginning on or after April 1, 2003. Section 3063 requires that impairment of long-lived assets held for use be determined by a two-step process, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

The Company does not expect that implementation of this pronouncement will have a material effect on its results of operations or financial position.

Stock-based compensation

In September 2003, the AcSB revised Section 3870 of the CICA Handbook to require that, effective January 1, 2004, the fair value method of accounting for stock options be recognized in the consolidated financial statements. The Company intends to apply these provisions retroactively without restatement for the year commencing January 1, 2004. The cumulative compensation cost of options on common shares of the Company issued on or after January 1, 2002, using the Black-Scholes option pricing model, will be charged to deficit with a corresponding increase to contributed surplus at January 1, 2004 (Note 9).

Variable interest entities

In November 2003, the AcSB released new Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, effective for fiscal years beginning after November 1, 2004. Certain disclosure requirements effective for fiscal years beginning on or after January 1, 2004, were suspended pending review of the corresponding U.S. guidance, FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. Variable interest entities refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying variable interest entities, and criteria for determining which entity, if any, should consolidate them.

The Company does not expect that adoption of this standard will have a material effect on its results of operations or financial position.

Liabilities and equity

In November 2003, CICA Handbook Section 3860, *Financial Instruments - Disclosure and Presentation*, was amended to require that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The amendments to Section 3860 are effective for fiscal years beginning on or after November 1, 2004, and the Company intends to apply these provisions retroactively, with restatement of prior years presented.

The Company has not yet determined the impact of the adoption of this standard on the results from operations or financial position.

4. ACCOUNTS RECEIVABLE

	2003	2002
Customer, net of allowance for doubtful accounts - nil (2002 - nil)	$ 403	$ 1,024
Other	48	153
Employees	8	30
	$ 459	$ 1,207

One customer accounted for 80% and 82% of customer accounts receivable at December 31, 2003 and 2002, respectively. The Company does not require a provision for doubtful accounts.

5. CAPITAL ASSETS

2003	Cost	Accumulated Amortization	Impairment Writedown	Carrying Value
Scientific equipment	**$ 4,291**	**$ 3,895**	**$ -**	**$ 396**
Computer software and equipment	**424**	**412**	**-**	**12**
Office equipment	**246**	**223**	**-**	**23**
Leasehold improvements	**2,604**	**2,562**	**-**	**42**
Manufacturing equipment	**176**	**129**	**-**	**47**
Computer equipment under capital lease	**512**	**391**	**-**	**121**
	$ 8,253	**$ 7,612**	**$ -**	**$ 641**
2002				
Scientific equipment	$ 5,953	$ 5,123	$ 184	$ 646
Computer software and equipment	523	515	-	8
Office equipment	423	363	28	32
Leasehold improvements	2,776	2,514	208	54
Manufacturing equipment	217	143	-	74
Computer equipment under capital lease	512	250	-	262
	$10,404	$ 8,908	$ 420	$ 1,076

During the year, there were no net additions (disposals) of computer equipment under capital lease (2002 - ($27); 2001 - $274).

In 2002, a writedown of $420 (2001 - nil) was taken on certain scientific equipment, office equipment, and leasehold improvements whose carrying values were deemed to be unrecoverable and in excess of fair value. The impairment charge was reported in the consolidated statements of operations in amortization of capital assets.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2003	2002
Accounts payable	**$ 313**	$ 430
Accrued research and development costs	**1,095**	4,846
Accrued compensation costs	**996**	902
Accrued legal provision	**600**	307
Accrued restructuring costs (Note 13)	**4**	1,157
Other accrued liabilities	**445**	938
	$ 3,453	$ 8,580

7. LEASE OBLIGATIONS

Capital leases

The Company is committed to annual minimum payments under capital lease agreements for computer equipment as follows:

2004	$ 113
Less amounts representing interest at rates from 8.00% to 10.36%	5
	108
Less current portion	108
	$ -

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

7. LEASE OBLIGATIONS (continued)

Interest expense on capital leases in the amount of $20 (2002 - $43; 2001 - $33) has been recorded in the consolidated statements of operations.

Operating leases

The Company is committed to annual minimum payments under operating lease agreements for premises and equipment over the next three years, as follows:

2004	$ 666
2005	180
2006	11
	$ 857

Minimum rental expense for premises and equipment in the amount of $579 (2002 - $1,406; 2001 - $767) and sublease rental income of $20 (2002 - nil; 2001 - nil) have been recorded in the consolidated statements of operations. Minimum rental expense includes a provision related to future lease costs arising from the downsizing of the Company's U.S. operations of nil (2002 - $497; 2001 - nil).

The Company's lease on its corporate facility expires in March 2005. The lease contains a provision for renewal for an additional two years on similar commercial terms.

8. SHARE CAPITAL

Authorized shares

12,500 non-cumulative, non-voting, Class A preference shares, redeemable at $100 per share on an annual basis, to the extent possible, out of 20% of the net profits of the Company for each year.

The difference between the redemption value and the book value of the Class A preference shares will be expensed at the time that the shares are redeemed.

Unlimited number of Class B preference shares issuable in series.

The Class B preference shares may be issued solely by resolution of the Board of Directors. The Board has the authority, subject to limitations set out in the Canada Business Corporations Act, to fix the number of shares in each series and to determine the designation of rights, privileges, restrictions, and conditions to be attached to each such series.

Unlimited number of common voting shares issuable.

Shares issued and outstanding

		2003		2002		2001	
		Shares	**Amount**	Shares	Amount	Shares	Amount
Class A preference							
Issued and outstanding, beginning and end of year		**12,500**	**$ 30**	12,500	$ 30	12,500	$ 30
Common voting							
Issued and outstanding, beginning of year		**53,795,573**	**$ 328,537**	52,376,536	$ 323,597	49,735,798	$ 294,588
Exercise of stock options	(a)	**46,000**	**121**	190,025	754	280,517	1,234
Financing:							
1999 CSPA	(b)	**1,366,817**	**2,432**	1,229,012	4,186	448,005	4,749
Merck KGaA CSPA	(c)	-	-	-	-	1,912,216	23,026
Equity placements	(d)	**17,070,176**	**27,664**	-	-	-	-
Exercise of warrants	(e)	**266,666**	**889**	-	-	-	-
Issued and outstanding, end of year		**72,545,232**	**$ 359,643**	53,795,573	$ 328,537	52,376,536	$ 323,597

8. SHARE CAPITAL (continued)

Warrants issued and outstanding

		2003		2002		2001	
		Warrants	**Amount**	Warrants	Amount	Warrants	Amount
Warrants							
Issued and outstanding, beginning of year		**975,000**	**$ 3,338**	975,000	$ 3,338	200,000	$ -
Convertible debentures (Note 10)		**-**	**-**	-	-	775,000	3,338
Equity placements	(d)	**3,543,665**	**5,514**	-	-	-	-
Exercise of warrants	(e)	**(266,666)**	**(297)**	-	-	-	-
Issued and outstanding, end of year		**4,251,999**	**$ 8,555**	975,000	$ 3,338	975,000	$ 3,338

The following table summarizes information on warrants outstanding at December 31, 2003:

Exercise Prices	Number Outstanding	Expiry Date
U.S. $4.09	200,000	August 31, 2004
U.S. $6.00	775,000	December 31, 2004
U.S. $1.66	592,593	April 29, 2005
U.S. $1.74	48,246	April 29, 2005
U.S. $1.66	503,704	May 8, 2005
U.S. $1.74	32,456	May 8, 2005
U.S. $2.30*	2,070,000	September 18, 2005
U.S. $2.30**	30,000	September 18, 2005
	4,251,999	

* Warrants are not exercisable until after March 18, 2004

** Warrants are not exercisable until after October 1, 2004

At the warrant holder's option and upon payment of the exercise price by the holder, the warrants may be exchanged for an equal number of common shares of the Company.

Share transactions

(a) Exercise of stock options

During 2003, options on 46,000 (2002 - 190,025; 2001 - 280,517) common shares were exercised, pursuant to the Share Option Plan, at an average price of $2.63 (2002 - $3.97; 2001 - $4.40) per share (Note 9).

(b) 1999 CSPA

On August 30, 1999, the Company entered into a Common Stock Purchase Agreement (CSPA) allowing the Company to access up to US $100 million from the sale of a maximum of 8.6 million common shares pursuant to a common stock equity line. The Company may, at its option, issue and sell its common shares over a period of 42 months commencing in September 1999, at a discount of 7% from the average daily price of the common shares. The equity line agreement expired on June 8, 2003.

During 2003, the Company issued 1,366,817 (2002 - 1,229,012; 2001 - 448,005) common shares for proceeds of $2,432 (2002 - $4,186; 2001 - $4,749), net of issue costs of $4 (2002 - $6; 2001 - $5). As at December 31, 2003, 7,519,039 shares of the 8.6 million under the CSPA were issued for gross proceeds of $76,020.

(c) Merck KGaA CSPA

On May 2, 2001, under the terms of a CSPA with Merck KGaA of Darmstadt, Germany, the Company issued 1,912,216 common shares for proceeds of $23,026, net of issue costs of $14. Upon achievement of certain milestones, additional common shares will be issued for contractual proceeds of US $6,500, the number of common shares to be determined based on a premium over the 90 day weighted average price of the common shares immediately prior to the milestone date (see Note 12).

During 2003 (2002 - nil), no additional common shares were issued under the Merck KGaA CSPA.

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

8. SHARE CAPITAL (continued)

(d) Equity placements

Under the terms of a Base Shelf Prospectus dated April 30, 2002 and registered with certain securities commissions in Canada and the U.S., the Company may issue in aggregate up to US $150 million of securities including common stock, preferred stock, debt securities, warrants, in any combination thereof.

During 2003, the Company completed three placements of common shares and immediately detachable purchase warrants, as described below:

(i) On April 29, 2003, the Company issued 4,824,562 common shares and 863,061 detachable warrants for proceeds of $7,524, net of issue costs of $427. Of the net proceeds, $6,515 and $1,009 have been allocated to common shares and warrants, respectively. The warrants, of which 814,815 and 48,246 have an exercise price of US $1.66 and US $1.74, respectively, are immediately exercisable and expire on April 29, 2005.

(ii) On May 8, 2003, the Company issued 3,245,614 common shares and 580,604 detachable warrants for proceeds of $4,853, net of issue costs of $310. Of the net proceeds, $4,367 and $486 have been allocated to common shares and warrants, respectively. The warrants, of which 548,148 and 32,456 have an exercise price of US $1.66 and US $1.74, respectively, are immediately exercisable and expire on May 8, 2005.

(iii) On October 1, 2003, the Company issued 9,000,000 common shares and 2,100,000 detachable warrants for proceeds of $20,801, net of issue costs of $999. Of the net proceeds, $16,782 and $4,019 have been allocated to common shares and warrants, respectively. The warrants have an exercise price of US $2.30 and are not exercisable until after March 18, 2004, with the exception of 30,000 warrants that are not exercisable until after October 1, 2004. The 2,100,000 warrants expire on September 18, 2005.

The Company used the Black-Scholes option pricing model to calculate the fair value of the warrants issued.

(e) Exercise of warrants

During the year, 266,666 warrants with an exercise price of US $1.66 were exercised. Share capital was credited with an amount of $889, representing cash proceeds of $592 and the carrying value attributed to the warrants of $297.

9. STOCK-BASED COMPENSATION

The Company sponsors a Share Option Plan under which a maximum of 6,400,000 common shares of the Company may be granted to employees, directors, and service providers. The exercise price of each option equals the minimum of the market value at the date immediately preceding the date of the grant. In general, options issued under the plan begin to vest after one year from the date of the grant, are exercisable in equal amounts over four years on the anniversary date of the grant, and expire eight years following the date of the initial grant.

A summary of the status of the Company's share option plan as of December 31, 2003, 2002, and 2001, and changes during the years ending on those dates are presented below:

	2003		2002		2001	
	Shares Options	Weighted Average Exercise Price	Shares Options	Weighted Average Exercise Price	Shares Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,600,611	$ 6.18	4,225,072	$ 7.24	4,105,025	$ 7.33
Granted	903,713	1.85	1,067,500	2.79	588,875	6.72
Exercised	(46,000)	2.63	(190,025)	3.97	(280,517)	4.40
Cancelled	(938,906)	5.83	(501,936)	8.70	(188,311)	11.73
Outstanding, end of year	4,519,418	$ 5.43	4,600,611	$ 6.18	4,225,072	$ 7.24
Options exercisable, end of year	3,157,334	$ 5.91	2,824,335	$ 6.28	2,739,726	$ 5.73

9. STOCK-BASED COMPENSATION (continued)

The following table summarizes information on share options outstanding and exercisable at December 31, 2003:

	Share Options Outstanding			Share Options Exercisable	
Range of Excercise Prices ($ per share)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
1.64 - 2.09	**828,262**	**7.7**	**$ 1.82**	**58,953**	**$ 1.81**
2.10 - 3.99	**1,724,251**	**4.4**	**2.97**	**1,574,925**	**3.01**
4.00 - 7.00	**1,112,380**	**2.8**	**5.52**	**838,917**	**5.39**
7.01 - 14.00	**269,025**	**1.4**	**10.57**	**245,525**	**10.50**
14.01 - 23.10	**585,500**	**3.9**	**15.28**	**439,014**	**15.28**
	4,519,418	**4.4**	**$ 5.43**	**3,157,334**	**$ 5.91**

In implementing CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, the Company elected to continue measuring compensation expense as the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an optionee must pay to acquire the stock. Had compensation cost for the Company's share option plan been determined at the grant date of the awards using the fair value method, additional compensation expense would have been recorded in the consolidated statements of operations.

As required by the standard, pro forma net loss and loss per share, reflecting the impact of stock-based compensation arising from awards to employees and directors since January 1, 2002, are presented in the table below:

	2003	2002
Net loss to common shareholders (Note 11)	**$ 19,248**	$ 35,985
Compensation expense	**1,227**	345
Pro forma net loss to common shareholders	**$ 20,475**	$ 36,330
Pro forma basic and diluted loss per share	**$ 0.33**	$ 0.69

For pro forma disclosure purposes, the Company uses the Black-Scholes option pricing model to value the options at each grant date, under the following weighted average assumptions:

	2003	2002
Expected dividend rate	**0%**	0%
Expected volatility	**112.42%**	95.42%
Risk-free interest rate	**4.29%**	3.97%
Expected life of options in years	**6.0**	3.3
Weighted-average grant-date fair value per share option	**$ 1.57**	$ 1.66

The pro forma amounts estimated according to the Black-Scholes option pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

10. CONVERTIBLE DEBENTURES

On September 26, 2001, the Company issued through a private placement $23,594 (US $15,000) of unsecured convertible debentures and 775,000 warrants. After deducting financing costs of $1,412, the net proceeds were $22,182. The 775,000 warrants entitle the holders to purchase an equal number of common shares at an exercise price of US $6.00 per warrant after January 1, 2002 and expiring on December 31, 2004.

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

10. CONVERTIBLE DEBENTURES (continued)

In May 2003, the Company repaid the final instalment of principal and interest, without penalty, in advance of the convertible debentures maturity on June 30, 2003. Over the term of the debentures, all contractual obligations were settled in cash. There were no conversions of either principal or interest into common shares.

Principal and interest payments in 2003 were $7,826 (US $5,294) (2002 - $15,213 (US $9,706); 2001 - nil), and $91 (US $60) (2002 - $860 (US $546); 2001 - nil), respectively.

In accordance with Canadian GAAP, the convertible debentures were accounted for as equity instruments in accordance with their substance, and presented in the consolidated financial statements in their component parts measured at their respective fair values at the time of issue. Using the Black-Scholes option pricing model, the fair value of the warrants component was $3,338, while the fair value of the common equity component, representing the residual of the net proceeds, amounted to $18,844.

11. LOSS PER SHARE

Basic and diluted loss per share has been calculated as follows:

	2003	2002	2001
Net loss, as reported	$ 18,974	$ 31,359	$ 38,679
Convertible debentures accounted for as equity:			
Accretion of convertible debentures	713	4,036	-
Interest, foreign exchange (gain)/loss, and carrying charges on convertible debentures	(439)	590	245
Net loss to common shareholders	$ 19,248	$ 35,985	$ 38,924
Weighted average shares outstanding	62,498	52,996	51,502
Basic and diluted loss per share	$ 0.31	$ 0.68	$ 0.75

For 2003 and the comparative years presented, shares potentially issuable upon the exercise or conversion of director and employee share options (Note 9), warrants issued in connection with the 1999 CSPA (Note 8(b)), shares contingently issuable in connection with the May 2, 2001 Merck KGaA agreement (Note 8(c)), convertible debentures and purchase warrants issued in connection with the convertible debentures (Note 10), and purchase warrants issued in connection with the 2003 equity placements under the Base Shelf Prospectus (Note 8(d)) have been excluded from the calculation of diluted loss per share because the effect would have been anti-dilutive.

12. COLLABORATIVE AGREEMENTS

On May 3, 2001, the Company entered into a collaborative arrangement with Merck KGaA to pursue joint global product development, licensing, and commercialization of the Company's two lead candidates, Theratope vaccine and BLP25 Liposomal (L-BLP25) vaccine, for the treatment of various cancer indications.

Upon execution of the collaborative agreements, Merck KGaA made an upfront payment of $10,534 to the Company comprising technology access, licensing, and other fees related to Theratope and L-BLP25. This payment has been recorded as deferred revenue and is being recognized as revenue on a straight-line basis over 10 years.

The table below presents the accounting treatment of the payments received at inception of the agreements:

	2003	2002	2001
Upfront payment classified as deferred revenue	$ 8,777	$ 9,831	$ 10,534
Less revenue recognized in the year	1,053	1,054	703
Deferred revenue balance at December 31	7,724	8,777	9,831
Less deferred revenue - current portion	1,053	1,053	1,053
Deferred revenue - long-term	$ 6,671	$ 7,724	$ 8,778

Under the terms of the agreements related to funding of clinical research and development activities, the parties agreed to equal co-funding of eligible clinical research and development costs related to obtaining regulatory approval in North America. Research and development costs incurred to obtain regulatory approval outside of North America are the sole responsibility of Merck KGaA. The Company and Merck reconcile joint research and development costs on a quarterly basis, and when it results in funding payments to the Company, the Company records such non-refundable amounts as contract research and development revenue. When the reconciliation results in funding payments to Merck KGaA, the Company will record such non-refundable amounts as research and development expense.

For fiscal 2003, the Company has recognized in revenue $2,309 (2002 - $3,967; 2001 - $4,851) of non-refundable funding from Merck KGaA.

Under the terms of the agreements related to product supply, marketing, and distribution, the Company is responsible for product manufacturing and product supply for all territories whereas the Company and Merck KGaA are jointly responsible for sales, marketing, and distribution in North America. The Company will receive royalties from Merck KGaA related to product sales outside North America, whereas the Company and Merck KGaA will share equally in net revenues from product sales in North America after deductions for marketing and manufacturing costs (including third party royalties).

Marketing and business development costs include the Company's equal share of co-funded North American marketing and pre-launch activities as well as internal costs to develop a marketing capability. The parties reconcile these joint marketing and business development expenditures on a quarterly basis, and when such reconciliation results in funding payments to Merck KGaA, the Company records such non-refundable amounts as marketing and business development expense.

Under a letter of undertaking dated May 3, 2001, both parties have agreed to mutually indemnify each other for any withholding tax liability arising from payments under the agreements. It is the understanding of the Company that payments under the agreements should not be subject to withholding taxes, which would otherwise constitute a tax liability of $1.2 million. There is no further recourse from third parties for payment of this amount, which has not been recorded in the financial statements as at December 31, 2003. Any tax liability assessed in the future will be recorded as it becomes determinable.

13. RESTRUCTURING COSTS

On October 10, 2002, the Company announced a cost reduction program in order to focus its energy and resources primarily on its two lead product candidates, Theratope and L-BLP25. The Company suspended all early stage discovery research programs, downsized its U.S. operations, and reduced associated administrative functions. As a result of these strategic decisions, 51 positions, or 30% of the workforce, were eliminated. In total, the Company recorded restructuring costs of $2,506. During 2003, the restructuring provision was reduced by a net amount of $94, representing recoveries of future lease costs of $128 and gains on disposals of capital assets of $58, offset by additional employee termination costs of $92. The net adjustment of $94 has been reported in the consolidated statements of operations as ($53) in research and development, $17 in general and administrative, and ($58) in gain on disposal of capital assets. Cumulative restructuring costs to date are $2,412 (2002 - $2,506). As at December 31, 2003, the restructuring plan is essentially complete.

The following table provides details of the restructuring costs since the initiative was announced on October 10, 2002:

	Accrued Restructuring Costs,	Costs /	Cumulative Drawdowns		Accrued Restructuring Costs,
2003	beginning of year	(Recoveries)	Cash	Non-Cash	end of year
Workforce reduction	**$ 506**	**$ 92**	**$ 598**	**$ -**	**$ -**
Facility and future lease costs	**649**	**(128)**	**520**	**(3)**	**4**
Proceeds on disposal of capital assets	**-**	**(58)**	**(58)**	**-**	**-**
Other	**2**	**-**	**2**	**-**	**-**
	$ 1,157	**$ (94)**	**$ 1,062**	**$ (3)**	**$ 4**
2002					
Workforce reduction	$ -	$ 1,418	$ 912	$ -	$ 506
Facility and future lease costs	-	649	-	-	649
Capital asset impairment writedown (Note 5)	-	420	-	420	-
Other	-	19	17	-	2
	$ -	$ 2,506	$ 929	$ 420	$ 1,157

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

14. IMPACT OF FOREIGN CURRENCY TRANSLATION

Included in investment and other (expense) income of ($295) (2002 - $1,990; 2001 - $4,579) in the consolidated statements of operations is a net foreign exchange (loss) gain of ($1,323) (2002 - ($208); 2001 - $736).

Included in interest, foreign exchange (gain) loss, and carrying charges on convertible debentures of ($439) (2002 - $590; 2001 - $245) in the consolidated statements of deficit is a net foreign exchange (gain) of ($501) (2002 - ($53); 2001 - nil) arising from repayments of principal and interest.

15. INCOME TAX BENEFIT

The Company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. A reconciliation of the income and large corporation tax benefit (provision) at the Canadian statutory rate to the benefit (provision) at the effective rate is as follows:

	2003	%	2002	%	2001	%
Recovery of income taxes based on statutory rates	$6,963	36.7	$ 12,305	39.2	$ 16,424	42.1
Tax benefit of losses not recognized in financial statements	(6,963)	(36.7)	(12,305)	(39.2)	(16,424)	(42.1)
Benefit from sale of subsidiary tax losses	303	1.5	353	1.1	533	1.3
Large corporations tax	(52)	(0.2)	(44)	(0.1)	(209)	(0.5)
Other	-	-	(18)	(0.1)	-	-
	$ 251	1.3	$ 291	0.9	$ 324	0.8

Future income taxes are comprised of:

	2003	2002	2001
Future income tax asset from:			
Capital assets	$ 1,288	$ 1,249	$ 1,575
Tax benefits from losses carried forward and tax credits	65,618	72,047	67,303
Future income tax asset before allowance	66,906	73,296	68,878
Less valuation allowance	(66,906)	(73,296)	(68,878)
Future income tax asset	$ -	$ -	$ -
Future income tax liability	$ -	$ -	$ -
Future income taxes - net	$ -	$ -	$ -

At December 31, 2003, the Company has accumulated non-capital losses for Canadian income tax purposes of nil that can be used to offset taxable income in future periods. The Company also has unclaimed federal investment tax credits of $14,838 (2002 - $16,710) that expire in fiscal years 2008 through 2013. The Company has available capital cost allowance pools of $4,858 (2002 - $4,372) for deduction against federal tax and $931 (2002 - $824) for provincial tax. Canadian scientific research and experimental development expenditures of $112,884 (2002 - $107,503) for federal purposes and $45,644 (2002 - $51,104) for provincial purposes are available as well to offset income in future periods. These expenditures may be utilized in any period and may be carried forward indefinitely. The Company also has capital losses of $22,984 (2002 - $23,264) and provincial capital losses of $23,075 (2002 - $23,558) that can be carried forward indefinitely to offset future capital gains.

The Company has accumulated net operating losses in the U.S. of $47,329 (2002 - $55,753) for federal purposes and $26,639 (2002 - $32,654) for state purposes, some of which are restricted pursuant to Section 382 of the Internal Revenue Code, and which may not be available entirely for use in future years. These losses expire in fiscal years 2004 through 2023. During 2003, the Company sold New Jersey State operating loss carry forwards and research and development tax credits, resulting in the recognition of a tax benefit of $303 (2002 - $353; 2001 - $533). The Company also has federal research and development and New Jersey general business tax credit carry forwards of $1,174 (2002 - $1,435) and $745 (2002 - $886), respectively, that will expire in fiscal years 2009 through 2021, if not utilized. There are no capital losses for federal or state purposes available for carry forward to offset future capital gains.

The losses and credits of other subsidiaries have not been included as their tax effect on the consolidated results are immaterial due to the low tax rates in those jurisdictions.

16. CONTINGENCIES, COMMITMENTS, AND GUARANTEES

Royalties

In connection with the issuance of the Class A preference shares (Note 8), the Company has agreed to pay a royalty in the amount of 3% of the net proceeds of sale of any products sold by the Company employing technology acquired in exchange for the shares.

On September 2, 1999, the Company entered into an Option Agreement with Chiron Corporation (Chiron) in which the Company agreed to acquire Chiron's rights and obligations related to a vaccine jointly developed by the two companies, subject to certain terms and conditions. On June 29, 2000, the Company exercised its option to terminate the collaboration agreement. As part of the termination agreement, the Company paid Chiron US $2,250 on June 30, 2000. An additional payment of US $3,250 will be payable to Chiron upon commercial launch of the vaccine in the U.S. No further obligation exists under either agreement.

Pursuant to various license agreements, the Company is obligated to pay royalties based both on the achievement of certain milestones and a percentage of revenues derived from the licensed technology.

In addition, the Company is committed to aggregate payments of US $300 until June 30, 2004 (payable quarterly in the amount of US $150 with the next payment due March 1, 2004) in exchange for an exclusive worldwide license of technology, including the right to grant commercial sublicenses to third parties. The Company must also pay a royalty on any payments received from collaborative agreements related to this technology.

Employee benefit plan

Under a defined contribution plan available to permanent employees, the Company is committed to matching employee contributions up to limits set by the terms of the plan as well as limits set by the Canadian and U.S. tax authorities. In 2003, the Company's matching contributions to the plan totalled $215 (2002 - $289; 2001 - $336). There were no changes to the plan during the year.

Legal proceedings

In conjunction with the sale of its investment in HealthVISION Corporation effective February 11, 1994, the Company provided specific and general representations and warranties to the purchaser. These representations expired at various dates to 1998. On January 31, 1996, the purchaser filed a statement of claim against the Company, pursuant to these representations and warranties, in the net amount of $1,447 and a claim for punitive damages in the amount of $1,000. Subsequent to the year-end, the claim was settled for approximately the amount that was recorded in the consolidated financial statements at December 31, 2003.

Guarantees

The Company is contingently liable under a mutual undertaking of indemnification with Merck KGaA for any withholding tax liability that may arise from payments under the collaborative agreements (Note 12).

In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, including environmental liabilities, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

17. FINANCIAL INSTRUMENTS

Financial instruments consist of short-term investments and accounts receivable that will result in future cash receipts, as well as accounts payable and accrued liabilities, capital lease obligation, and redeemable preference shares that require future cash outlays.

Credit risk

The Company is exposed to credit risk on its short-term investments in the event of non-performance by counterparties, but does not anticipate such non-performance. The Company monitors the credit risk and credit standing of counterparties on a regular basis and deals with a small number of companies that management believes are reputable and stable. Restricting its portfolio to investment grade securities, and diversifying its investments across industries, geographic regions, and types of securities mitigates the Company's exposure to concentration of credit risk.

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

17. FINANCIAL INSTRUMENTS (continued)

Financial risk

Financial risk is the risk to the Company's earnings that arises from volatility in interest and foreign exchange rates. The Company has exposure to interest income risk through its investments in fixed-income securities that are sensitive to interest rate fluctuation.

Foreign exchange risk

The Company purchases goods and services denominated primarily in Canadian and U.S. currencies and, to a lesser extent, in certain European currencies. Since the Company earns a significant portion of its revenues in U.S. dollars, settling foreign currency denominated obligations out of cash flows in the same currencies, wherever possible, mitigates its foreign exchange exposure. To manage its exposure to foreign exchange risk through its holdings of cash and investments in U.S. dollars, the Company has considered utilization of derivative instruments.

In December 2003, the Company entered into a foreign exchange forward contract in order to reduce its exposure to fluctuating foreign currency exchange rates. Investment and other (expense) income include a realized loss of $78 (2002 - nil; 2001 - nil) and unrealized gains and losses of nil (2002 - nil; 2001 - nil) relating to the contract. As there were no open foreign exchange forward contracts as at December 31, 2003, 2002, and 2001, respectively, no assets or liabilities with respect to such contracts have been recorded in the consolidated balance sheets as at those dates.

Short-term investments

The fair values of short-term investments are assumed to be equal to their market value. These values are based upon quoted market prices.

Accounts receivable and accounts payable and accrued liabilities

The carrying amounts of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

Capital lease obligation

The estimated fair value of the capital lease obligation is based on the present value of expected future cash flows discounted using an estimate of the Company's current borrowing rate.

Class A preference shares

The fair value of the Class A preference shares is assumed to approximate their carrying value due to the fact that their realizable value is contingent upon meeting future profitability thresholds that cannot be determined with any certainty at this time.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment; therefore, they cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair values

The estimated fair values of financial instruments are as follows:

	2003		2002	
	Fair Value	**Carrying Amount**	Fair Value	Carrying Amount
Assets				
Cash and cash equivalents	**$ 24,062**	**$ 24,062**	$ 8,507	$ 8,507
Short-term investments	**17,443**	**17,443**	29,153	28,682
Accounts receivable	**459**	**459**	1,207	1,207
Liabilities				
Accounts payable and accrued liabilities	**3,453**	**3,453**	8,580	8,580
Capital lease obligation	**111**	**108**	279	265

18. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES

These consolidated financial statements have been prepared in accordance with Canadian GAAP that differs in some respects from those used in the United States (U.S. GAAP).

The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are as follows:

Business acquisition

Under U.S. GAAP, the acquisition of Biomira USA Inc. (formerly OncoTherapeutics, Inc.) in 1995 was accounted for at an effective date that was different from the effective date required under Canadian GAAP. The effect of this difference is that under U.S. GAAP the value of the net shares issued was higher by $3,142, increasing the research and development acquired on acquisition by an equal amount. In addition, under U.S. GAAP, the research and development acquired would be expensed on the date of acquisition, whereas under Canadian GAAP it must be deferred and amortized.

Comprehensive income

Under U.S. GAAP, SFAS No. 130 requires that companies report comprehensive income as a measure of overall performance. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The only component of comprehensive income that currently affects the Company's performance is unrealized holding gains and losses on available-for-sale short-term investments (as described in the following section). There is no concept similar to comprehensive income under current Canadian GAAP.

Short-term investments

Under U.S. GAAP, SFAS No. 115 requires that available-for-sale short-term investments be reported at fair value, with unrealized temporary holding gains and losses excluded from earnings and reported in comprehensive income and also as a net amount in accumulated other comprehensive income until realized. Canadian GAAP requires that these investments be carried at the lower of cost and market value with any unrealized losses recorded in the consolidated statements of operations. Once written down, these investments are not adjusted upward for subsequent appreciation in market value. Such gains are recognized only upon final disposition of the investments.

As at December 31, 2003, an unrealized holding gain of nil (2002 - $471; 2001 - $649) is included in the consolidated balance sheets, and the net change in the unrealized holding gain of ($471) (2002 - ($178); 2001 - $5) is reflected in the consolidated statements of comprehensive (loss) income for U.S. GAAP. These amounts are not recorded under Canadian GAAP.

Under Canadian GAAP, the Company recorded a provision in 1999 for unrealized holding losses of $332 on short-term investments in the consolidated statements of operations. Under U.S. GAAP, this amount has been excluded from the consolidated statements of operations and included in the consolidated statements of comprehensive (loss) income. In 2003, the Company liquidated the remainder of the investment, recognizing a loss of $15 (2002- $37; 2001 - $93).

As at December 31, 2003, the composition of available-for-sale short-term investments, classified by maturity from date of issue, is as follows:

	At Cost	At Market
Maturing within 90 days	$ 10,260	$ 10,260
Maturing within 1 year	7,183	7,183
	$ 17,443	$ 17,443

Convertible debentures

Under U.S. GAAP, the proceeds from the convertible debentures issued in 2001 totalling $18,844, net of issue costs of $1,412, and net of the fair value of $3,338 attributed to warrants, are recorded as a liability. Accordingly, the Company recorded accretion of convertible debentures of $713 (2002 - $3,667; 2001 - $369), and interest, foreign exchange (gain) loss and carrying charges on convertible debentures of ($439) (2002 - $590; 2001 - $245) in the consolidated statements of operations. Accretion and amortization were charged to income from the date of issue of the debentures. Currently under Canadian GAAP, the convertible debentures are presented as equity, with accretion, amortization, and interest related to the debentures being charged to equity. Accretion and amortization charges commenced on the date that the Company began making principal repayments.

As a liability instrument under U.S. GAAP, the convertible debentures have been translated at the current foreign exchange rate in effect as at the balance sheet date, with a translation (gain) loss of ($35) (2002 - ($260); 2001 - $295) being recorded in the consolidated statements of operations. Under Canadian GAAP, the debentures are translated at the historical exchange rate, with foreign exchange gains and losses arising only upon repayment of principal.

For U.S. GAAP purposes, the fair value of the convertible debentures at December 31, 2003, is nil (2002 - $8,397) where fair value has been determined by discounting the expected future cash flows of these convertible debentures at current rates for debt instruments with similar terms.

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

18. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES (continued)

Warrants

Under U.S. GAAP, Emerging Issues Task Force 00-19 and APB Opinion No. 14, the fair value of warrants issued would be recorded as a reduction to the proceeds from the issuance of common shares and convertible debentures, with the offset to additional paid-in capital. The warrants have been presented as a separate component of shareholders' equity for Canadian GAAP purposes.

During 2003, 266,666 warrants having a strike price of US $1.66 were exercised, resulting in a credit to share capital of $889, representing $592 in cash proceeds and $297 reclassified from additional paid-in capital (Note 8(e)).

Stock-based compensation

Under U.S. GAAP, SFAS No. 123 recommends that stock-based compensation plans be accounted for using a fair value methodology. As permitted by SFAS No. 123, the Company has elected to continue measuring compensation expense using the intrinsic value based method of accounting for stock options. Under this method, compensation is the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an optionee must pay to acquire the stock. Election of this method requires pro forma disclosure of compensation expense as if the fair value method has been applied for awards granted in fiscal periods after December 15, 1994.

Under Canadian GAAP, pro forma disclosure of compensation expense for awards granted on or after January 1, 2002, has been provided (Note 9).

The table below presents the pro forma disclosures required under U.S. GAAP:

	2003	2002	2001
Net loss to common shareholders - U.S. GAAP	**$ 19,228**	$ 35,393	$ 39,681
Compensation expense under SFAS No. 123	**4,876**	4,333	3,868
Pro forma net loss to common shareholders - U.S. GAAP	**$ 24,104**	$ 39,726	$ 43,549
Pro forma basic and diluted loss per share - U.S. GAAP	**$ 0.39**	$ 0.75	$ 0.85

The weighted average assumptions presented below are used in the Black-Scholes option pricing model to calculate the fair value of options granted during the year.

	2003	2002	2001
Expected dividend rate	**0%**	0%	0%
Expected volatility	**112.42%**	95.42%	77.91%
Risk-free interest rate	**4.29%**	3.97%	4.31%
Expected life of options in years	**6.0**	3.3	6.0
Weighted-average grant-date fair value per share option	**$ 1.57**	$ 1.66	$ 4.48

Derivative financial instruments

Under U.S. GAAP, SFAS 133 requires that derivative financial instruments that are not designated as hedges be recorded as assets or liabilities, and be measured at fair value with any subsequent changes in fair value recorded in the consolidated statements of operations. Currently under Canadian GAAP, derivative financial instruments are recorded at the lower of cost or market whereby gains are recognized upon realization and losses when identified. As there were no open derivative financial instrument positions at December 31, 2003, 2002, and 2001 respectively, there are no differences between U.S. and Canadian GAAP relating to derivative financial instruments as at those dates (Note 17).

Effect of Canadian - U.S. GAAP differences

The effect of all the above differences between Canadian and U.S. GAAP on the Company's consolidated financial statements is set out below:

18. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES (continued)

Consolidated Balance Sheets

	2003	2002
Short-term investments (as reported)	$ 17,443	$ 28,682
Effect of SFAS 115	-	471
Short-term investments - U.S. GAAP	$ 17,443	$ 29,153
Convertible debentures - liability portion (as reported)	$ -	$ -
Convertible debentures presented as liability	-	7,614
Accretion and amortization of debt issue costs	-	-
Foreign exchange loss on translation	-	35
Convertible debentures - liability portion - U.S. GAAP	$ -	$ 7,649
Share capital (as reported)	$ 359,643	$ 328,537
Shares issued for business acquisition	3,142	3,142
Warrants issued in connection with August 31, 1999 CSPA	(315)	(315)
Share capital - U.S. GAAP	$ 362,470	$ 331,364
Convertible debentures - equity portion (as reported)	$ -	$ 10,952
Warrants issued in connection with convertible debentures accounted for as additional paid-in capital	-	(3,338)
Convertible debentures presented as liability	-	(7,614)
Convertible debentures - equity portion - U.S. GAAP	$ -	$ -
Warrants (as reported)	$ 8,555	$ 3,338
Warrants issued in connection with convertible debentures accounted for as additional paid-in capital	(3,338)	(3,338)
Warrants issued in connection with equity placements	(5,514)	-
Exercise of warrants	297	-
Warrants - U.S. GAAP	$ -	$ -
Additional paid-in capital (as reported)	$ -	$ -
Warrants issued in connection with August 31, 1999 CSPA	315	315
Warrants issued in connection with convertible debentures	3,338	3,338
Warrants issued in connection with equity placements	5,514	-
Exercise of warrants	(297)	-
Additional paid-in capital - U.S. GAAP	$ 8,870	$ 3,653
Deficit (as reported)	$ (345,349)	$ (326,101)
Shares issued for business acquisition	(3,142)	(3,142)
Adjustment for unrealized loss on short-term investments recorded under Canadian GAAP	-	15
Foreign exchange loss on translation of convertible debentures	-	(35)
Deficit - U.S. GAAP	$ (348,491)	$ (329,263)
Accumulated other comprehensive income (as reported)	$ -	$ -
Effects of SFAS 115	-	471
Cumulative effect of 1999 lower of cost and market writedown under Canadian GAAP	-	(15)
Accumulated other comprehensive income - U.S. GAAP	$ -	$ 456
Shareholders' equity (as reported)	$ 31,750	$ 22,289
Effects of SFAS 115	-	471
Foreign exchange loss on translation of convertible debentures	-	(35)
Convertible debentures presented as a liability	-	(7,614)
Shareholders' equity - U.S. GAAP	$ 31,750	$ 15,111

(all dollar amounts expressed in thousands of Canadian dollars, except per share amounts)

18. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND THE UNITED STATES (continued)

Consolidated Statements of Operations

	2003	2002	2001
Net loss from operations (as reported)	$ (18,974)	$ (31,359)	$ (38,679)
Reclassification adjustment - realized loss on short-term investments	(15)	(37)	(93)
Foreign exchange gain (loss) on translation of convertible debentures	35	260	(295)
Accretion and amortization of debt issue costs	(713)	(3,667)	(369)
Interest, foreign exchange (gain) loss, and carrying charges on convertible debentures	439	(590)	(245)
Net loss - U.S. GAAP	$ (19,228)	$ (35,393)	$ (39,681)

Consolidated Statements of Comprehensive (Loss) Income

	2003	2002	2001
Net loss - U.S. GAAP	$ (19,228)	$ (35,393)	$ (39,681)
Current year effect of SFAS 115	-	471	649
Reversal of SFAS 115 effect from prior year	(471)	(649)	(644)
Reclassification adjustment - realized loss on short-term investments	15	37	93
Comprehensive loss - U.S. GAAP	$ (19,684)	$ (35,534)	$ (39,583)

Loss per Common Share

	2003	2002	2001
Canadian GAAP - Basic and diluted loss per share	$ 0.31	$ 0.68	$ 0.75
U.S. GAAP - Basic and diluted loss per share	$ 0.31	$ 0.67	$ 0.77

New accounting standards

Under the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin No.74 (SAB 74), the Company is required to disclose certain information related to recently issued accounting standards. SAB 74 requires that when a new accounting standard has been issued but has not yet been adopted, the registrant should discuss the effect that the new standard will have on the registrant's financial statements when adopted.

The SAB 74 disclosure requirement applies not only to the U.S. GAAP information presented by foreign registrants, but also to the GAAP used to prepare the primary financial statements included in SEC filings. In accordance with SAB 74, recently issued Canadian accounting standards are discussed in the notes to the consolidated financial statements in Note 3, Accounting Policy Changes under the subsection *Accounting standards effective in future years*.

Variable interest entities

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51 (FIN 46), effective for variable interest entities created after January 31, 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of that entity if the equity investors in the entity do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure provisions of FIN 46 are effective for financial statements issued after January 1, 2003, while FIN 46 is effective beginning January 1, 2004. In December 2003, the FASB issued FIN 46(r) to clarify some of the provisions of FIN 46 and to exempt certain entities from its requirements. Adoption of this standard is not expected to have a material effect on the Company's results from operations and financial position.

19. SEGMENTED INFORMATION

The Company is engaged world wide primarily in the biotechnology health care industry in a single business segment; research and development of therapeutic products for the treatment of cancer. Operations and capital assets by geographic region for the periods indicated are as follows:

	2003	2002	2001
Revenue from operations in			
Canada	$ 120	$ 409	$ 1,989
United States	36	49	9
Barbados	2,824	4,410	5,047
Europe	436	436	291
	$ 3,416	$ 5,304	$ 7,336
Amortization of capital assets			
Canada	$ 417	$ 637	$ 945
United States	29	712	340
	$ 446	$ 1,349	$ 1,285
Capital assets			
Canada	$ 607	$ 1,013	$ 1,210
United States	34	63	992
	$ 641	$ 1,076	$ 2,202

The Company derives significant revenue from certain customers. The number of customers that individually account for more than 10% of revenue and total revenue from transactions with those customers are as follows:

	Number of Customers	Revenue
2003	**1**	**$ 3,362**
2002	1	5,020
2001	2	7,140

20. COMPARATIVE FIGURES

Certain of the comparative figures for 2002 and 2001 have been reclassified to conform to the current year's presentation.

Board of Directors

Eric E. Baker, BSc, MBA (1)
President, Miralta Capital II Inc.
Chairman of the Board, Biomira Inc.

S. Robert Blair, CC (1)
Executive Chair and President
Photon Control Inc.

Richard L. Jackson, PhD
President
Richard Jackson Associates, LLC.
Adjunct Professor, Cincinnati Children's Hospital

Sheila Moriber Katz, MD, MBA (2)(3)
Professor of Pathology and Laboratory Medicine, Drexel University

Alex McPherson, MD, PhD (1)
President and Chief Executive Officer
Biomira Inc.
Professor Emeritus, Faculty of Medicine, University of Alberta

W. Vickery Stoughton (2)(3)
Corporate Director

Michael C. Welsh, QC (2)(3)
President
Almasa Capital, Inc.

Nancy J. Wysenski, BSc, MBA (4)
President
EMD Pharmaceuticals, Inc.

Corporate Officers

Alex McPherson, MD, PhD
President and Chief Executive Officer

Robert D. Aubrey, BSc
Vice President Marketing and Business Development

Guy Ely, MD
Vice President Clinical and Medical Affairs

Ronald J. Helmhold, CA
Vice President Treasury and Financial Operations

Marilyn Olson, BComm, MLT, RAC
Vice President Regulatory Affairs

Edward A. Taylor, CGA
Chief Financial Officer
Vice President Finance and Administration and Corporate Secretary

Auditors

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Biomira's Annual Report, Annual Information Form, Quarterly Reports, Press Releases and other relevant investor relations' information are available electronically on the Internet at www.biomira.com.

Stock Listing
The Company's common shares are traded in Canada on the Toronto Stock Exchange under the trading symbol BRA and in the United States on Nasdaq under the trading symbol BIOM.

Corporate Governance
Information concerning Biomira's policies are contained in the Company's Information Circular and is also available by contacting the Company.

Code of Ethics
Biomira's Code of Ethics for the CEO and Senior Financial Officers and the Code of Ethics and Business Conduct for all Board Members, Officers and employees can be found on the investors' section of the Biomira Web site at www.biomira.com under Corporate Governance.

(1) Member of Executive Compensation Committee
(2) Member of Audit Committee
(3) Member of Corporate Governance Committee
(4) Pursuant to the Amended and Restated Collaboration Agreement with Merck KGaA dated May 3, 2001